

**WEST BANK/GAZA**

**PIEFZA Corporate Plan**

**TSG-SITE Project**

**USAID Contract No. 294-C-00-98-00110-00**

February 2000

Prepared for:

**United States Agency for International Development  
Palestinian Industrial Estates and Free Zones Authority**

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**PART 1: STRATEGIC DIRECTION AND CONTEXT  
FOR INDUSTRIAL ESTATE, FREE ZONE, AND  
TECHNOLOGY PARK DEVELOPMENT**

# 1. Introduction

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This Corporate Plan will guide the strategic and institutional development and activities of the Palestinian Industrial Estates and Free Zone Authority (PIEFZA) for a three-year period beginning on October 1, 2000. It has been prepared for PIEFZA under the auspices of the U.S. Agency for International Development's (USAID) SITE Project.

This Plan is divided into three parts:

- Part I sets forth the strategic direction and context for industrial estate (IE), free zone (FZ), and technology park development in the West Bank and Gaza strip, and defines PIEFZA's strategic objectives and scope of operations in fostering this development.
- Part II addresses PIEFZA's institutional development, including PIEFZA's relationships and coordination with other institutions and stakeholders; the agency's organizational structure and internal operations; and the agency's staffing and human resource development strategy. This section is both descriptive -- it identifies what has done to date -- and prescriptive -- it identifies the "next steps" that must be undertaken over the next three years.
- Part III sets forth PIEFZA's IE/FZ implementation strategy. It addresses the implementation of the marketing plan; physical planning issues; labor and manpower development; and financial planning. This section also sets forth a three-year implementation plan and timeline, as well as a three-year financial plan for the organization. Part III concludes with a summary of the needed technical assistance and other requirements that will be necessary to fully establish PIEFZA as an independent and effective "best practices" institution capable of monitoring, regulating, and promoting IE, FZ and related development in the West Bank and Gaza strip.

This plan represents the completion of the strategic assessment of PIEFZA's functions, structure, and overall effectiveness conducted by The Services Group (TSG) in October 1999 and compiled in a written report in December 1999. This analysis was supplemented by strategic planning discussions between PIEFZA officials and TSG principals Hugh Doyle and Jim O'Gara, as well as discussions on institutional, administrative, and financial issues by Sutherland Miller, in January 2000. Other important inputs to this plan include TSG's Investor Targeting Strategy for IEs in the West Bank and Gaza and the Feasibility Study for the Khadoury Technology Development Center at Tulkarem.

PIEFZA is a relatively young organization which has made a highly promising start and has completed a very successful first year of operation. Much of this first year, however, was devoted to simply establishing operations, developing basic procedures, and delivering core services.

The key challenge facing PIEFZA now is to look forward to define its strategic vision and focus and to follow a systematic path to implement that vision. This Corporate Plan is designed to build on the progress to date and provide this agency with the necessary strategic direction and focus to become a fully functioning, well staffed, and financially viable organization.

## 2. Strategic Overview

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### 2.1 National Context for IE/FZ Development

PIEFZA was created through the promulgation of the Industrial Estates and Free Zones Law (Law No. 10/1998) enacted in November 1998. The first institutional support for the WBG IE/FZ program was provided by the Ministry of Industry (MOI) of the PA, through a specialized department staffed with dedicated personnel.

The Palestinian IE/FZ program is notable for the speed with which it has been established and generated results on the ground. A fully serviced private industrial estate was established in Gaza within a period of just 26 months from the execution of the lease agreement. To date, 17 companies are in operation at the Gaza Industrial Estate (GIE), generating over 1100 new direct jobs, and another 30 companies have been or are in the process of being authorized by PIEFZA to operate in the GIE. The estimated value of production by the operational firms in 1999 was \$10.3 million, well above the \$2.5 million goal set by USAID. Moreover, the development of another 4 IEs at (at Tarqumiya, Nablus, Rafah, and Jenin), as well as the Khadoury Technology Development Center (KTDC), is currently underway. These estates will probably be operational during the course of this three-year plan. Most of the credit for these achievements belongs to PIEFZA and the MOI.

Despite these significant achievements, the external and internal environments faced by PIEFZA are changing. Externally, the growth of the IE program and the emergence of projects in the West Bank are putting pressure on PIEFZA. While important coordination has been achieved with other PA bodies, additional coordination and cooperation will be necessary as the IE/FZ program develops further.

Internally, PIEFZA's staff and other resources are limited, and are not optimally distributed between Gaza and the West Bank.

Internal procedures need to be improved and clearly documented. Communications and working procedures between the PIEFZA offices (Gaza, Ramallah, Tulkarem, Jenin, and Nablus) have only been partially documented.

These internal and external elements pose important challenges to PIEFZA. and will have to be overcome if the IE/FZ program is to continue to be successful in the medium- to long-term. The purpose of this Corporate Plan is to provide a clear and consistent definition of PIEFZA's role, to elaborate the steps necessary for its further institutional development, and to set forth a strategic direction and purpose for the next three years.

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**2.2 PIEFZA's First-Year Results**

The overall assessment of the performance of PIEFZA over its first year of operations is positive. The organization has been able to successfully establish operations and has achieved important accomplishments in a very difficult working environment. Most other IE/FZ bodies worldwide have all gone through a period of institutional consolidation and reconfiguration to better discharge their functions. Most of these countries have had to amend their laws and reorganize their institutions substantially over time.

The results of PIEFZA's first year of operation are summarized below. This compilation of the organization's achievements and weaknesses both identifies concrete accomplishments that can be built on, as well as those areas requiring further enhancement.

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*Major Achievements*

The main achievement of PIEFZA has been the successful launch of its operations and development of the GIE. Main organizational strengths and achievements include:

- Successful evolution from a MOI department to a working institution.
- Successful development of a genuine leadership role for IE/FZ development in WBG.

- Establishment and operationalization of the GIE in a very short period of time by international standards in an extremely challenging environment.
- Successful coordination and provision of off-site infrastructure for the GIE.
- Continuation of an investment facilitation role in the GIE that, to some extent, exceeded its mandate, due to weaknesses of GIE management.
- Facilitation of the identification and pre-feasibility of new industrial estates in WBG.
- Establishment of a streamlined and successful one-stop shop for approvals.
- Establishment of positive working relationships with major stakeholders -- PIEFZA is perceived as a positive facilitator.
- Promulgation of a flexible and generally competitive legal framework.

These achievements give PIEFZA a solid foundation on which to make significant progress in the next three years.

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*Constraints and Limitations*

Set against these considerable accomplishments are a number of factors that currently constrain the organization. The areas that need to be addressed in the next three years:

- Further enhancement of relationships with stakeholders, especially those dealing with customs and security issues.
- Greater focus on investment promotion, investor facilitation and policy development.

- Greater formalization of procedures addressing the cross-border movement of people and goods.
- Better definition of the current organizational approach that has led to the establishment of parallel offices in West Bank and Gaza.
- Full implementation of the PIEFZA organization chart so that empty positions are filled.
- Development and implementation of basic work procedures, including structured and measurable internal objectives and procedures.
- Development of formal internal communication channels.
- Obtaining adequate funding and control over an independent budget.
- Ending reliance on a civil service structure, in contrast to a more competitive long term-oriented salary scale.
- Formalization of personnel as PIEFZA employees rather than MOI staff.
- Overcoming critical office, equipment and facilities constraints.

An additional limiting factor has been the weak management capacity and capabilities of the GIE developer, PIEDCO. This has put a burden on PIEFZA staff to handle issues that should be the responsibility of the developer.

These constraints and limitations constitute significant challenges that PIEFZA must seek to overcome in the next three years.

Context for Change

The development of a medium-term institutional enhancement strategy also needs to take into account the competitive environment that PIEFZA is facing and shall face in the near future.

Competition for scarce investment dollars is going to accelerate, particularly as the peace process is advanced. The number of countries in the Middle East and North Africa hosting private zones and industrial estates is growing (Box 2.1) These will be in addition to the 40 public and 7 private IE/FZs already in operation in the region. There is a strong trend toward private sector zones, with minimum of regulation and control.

The competitive threat of these zones shall increase, especially from Jordan and Egypt, both of whom shall benefit from a “peace dividend.” The factor and operating costs of these countries are much lower than WBG. Gradual improvement of ties between these countries and Israel shall pose a major competitive threat to

IE/FZs in WBG in the future.

At the same time, there are major cluster, co-production and other trade and investment opportunities with these countries that need to be exploited.

Over time, it is likely that the unique political and economic relationship that WBG has with Israel shall diminish. The benefits of quota- and duty-free access to the US and European markets are already being extended beyond the region. Access to global and regional markets will become critical to propel the WBG

economy beyond a dependence on bilateral relationships.

**Box 2.1: Free Zones in MENA are Multiplying**

- **Abu Dhabi:** Free zone being established on Saadiyat island
- **Bahrain:** 2 free zones planned
- **Egypt:** 4 private zones planned in North Suez area
- **Iraq:** Free zone being planned in Basra
- **Jordan:** 2 QIZs designated; Aqaba freeport planning
- **Kuwait:** Private zone planned at airport
- **Lebanon:** Planning for 7 new private zones underway
- **Oman:** Free zone development at Salalah port underway
- **Qatar:** Free zone planned at Doha
- **Ras Al Khaimah, UAE:** Free zone being developed
- **Saudi Arabia:** Private industrial estate regime being developed
- **Tunisia:** Plans for two private free zones underway
- **Turkey:** New zone approved at Black Sea port of Hopa
- **Yemen:** Private free zone being developed in Aden

Source: TSG research

These factors will put increasing pressure on the WBG zones to be competitive and operate efficiently. PIEFZA must facilitate the transformation of the WBG IEs from being locations for relatively low value-added, non time-sensitive production, to high-end, just-in-time operations. Inward investments will need to become larger, more integrated and higher-end. Physically, zones will have to:

- Provide upscale facilities and customized services.
- Be connected to industrial clusters and corridors outside the zones.
- Integrate training and research facilities.

To achieve this vision will require PIEFZA undertaking major external and internal actions. Externally, trade, logistics, transport and other aspects governing the cross-border of people, goods and capital shall have to be established to world-class standards. Internally, a streamlined, non-bureaucratic and competitive investment environment will need to be installed.

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**2.3 PIEFZA's Role and Mandate**

PIEFZA's strategic direction over the next three years should be based on its major achievements and constraints and limitations, as well as on its statutory role and mandate. Under the Palestinian Industrial and Free Zone Law, PIEFZA is a "financially autonomous, statutory institution" with responsibility to regulate, monitor, and promote the development and operation of private industrial estates in the West Bank and Gaza strip. PIEFZA has been delegated the following specific responsibilities:

- to develop a comprehensive policy and strategy for the development of Industrial and Free Zones in Palestine;
- to make recommendations to the Council of Ministers on the establishment, development, and management of Industrial and/or Free Zones;

- to receive and review applications for the designation of Industrial and/or Free Zones from qualified applicants;
- to select developers and conclude concession contracts with them;
- to add to and amend the activities that may be carried out in a Free Zone;
- to finance, own, operate directly or through other public or private bodies infrastructure facilities serving the needs of the Industrial Free Zones;
- to prescribe rules on all matters necessary for the development, operation, and management of Industrial and Free Zones;
- to facilitate the establishment and operation of enterprises operating in Industrial and Free Zones, and to this effect (i) receive appropriate delegations of powers from Palestinian ministries, agencies, or authorities, (ii) serve as the channel through which enterprises shall receive licenses or permits, and (iii) organize within the Zones the exercise of functions of the Palestinian ministries or agencies;
- to consider applications from legal entities seeking to qualify as Authorized Enterprises and to grant Free Zone Certificates;
- to monitor the performance and growth of the Industrial and Free Zones and publish periodic reports in this respect;
- to advertise and promote Palestinian and Free Zones locally and internationally with a view to increased investment; and
- to maintain records regarding local and regional agreements on any manner covered in this law and a data base regarding investment, production, promotion and developments

elsewhere in the region and in the world.

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**2.4 PIEFZA's Vision and  
and Mission Statement**

In order to establish Palestine as a leading location for IE/FZ investment, PIEFZA needs a clear vision for the future, with accompanying planning, organizational, and promotional policies. Discussions with PIEFZA senior officials have indicated that the agency's key focus should be on:

- increasing the sustainability of agency activities;
- improving communication between PIEFZA offices; and.
- continued and enhanced marketing and promotion.

These objectives essentially refer to the *consolidation and expansion* of the agency's activities. Consolidation and institution building are clearly short-term priorities in the year ahead. For the remainder of the Corporate Plan period, however, PIEFZA also needs a *strategic vision* of where the agency and the IE/FZ program should go over the next three years. This strategic vision should include the following elements:

*The purpose of the IE/FZ program is to stimulate economic growth, attract capital investment, and encourage the transfer of technology in order to improve the life and livelihood of Palestinians in an environmentally sustainable fashion.*

*The IE/FZ program should be a key part of the PA's efforts to achieve international competitiveness and integration with the global economy.*

*The IE/FZ program rests on the principle of private-sector led economic development and implementation and development of the program should utilize private sector practices and mechanisms as much as possible.*

To reach this vision, PIEFZA should adopt targets in the following areas: IE/FZ growth, international competitiveness, institutional and organizational development, and physical planning and infrastructure.

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*IE/FZ Growth*

The number of IEs, and the number of IE/FZ firms will expand enormously in the next three years. PIEFZA should adopt the following targets to ensure that such growth occurs in a manner which supports the agency’s strategic vision:

- Growth in the IE/FZ sector occurs through balanced investment in different economic sectors, and is not reliant on a single industry or sector.
- Growth in the IE/FZ sector is integrated with the rest of the economy, through the encouragement of backward and forward linkages between zone and local firms.
- Growth is distributed between IEs and between regions, to the benefit of the greatest number of Palestinians.
- Growth increasingly occurs through the development of higher-end, higher skill level investments.
- Expansions and re-investment by existing firms eventually become a major source of new investment.

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*International Competitiveness*

As noted above, the IE/FZ program is operating in a very dynamic environment, where competitive advantage can shift rapidly. PIEFZA must continuously assess and work to upgrade the program’s competitiveness by attaining the following.

- To improve the program's competitiveness, modify investment laws and incentives and provide services that are equal to or better than those offered by competing locations in the region.

- Upgrade the education and skills base of the work force.
- Establish PIEFZA and the IE/FZ program as world-class investment location in the eyes of investors worldwide.

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*Institutional and Organizational Development*

The rapid growth of the IE/FZ program over the next three years means that a key objective must be PIEFZA's timely transformation into an effective agency capable of keeping pace with, and responding to, this rapid growth. This development should have the following goals:

- Transform PIEFZA into a focused organization with distinct functions, roles, and appropriate resources.
- Develop an effective and pro-active marketing and promotional capability.
- Create and/or maintain effective working relationships with key PA agencies that are critical to the IE/FZ program's success.

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*Physical Planning and Infrastructure*

Achieving PIEFZA's strategic vision will rest in part on the provision of reliable, efficient, and cost-effective infrastructure. PIEFZA's targets should be:

- Develop IE/FZs and related physical infrastructure in the context of a broader and comprehensive physical and development plan.
- Provide off-site infrastructure in a cost-effective manner relying upon private sector development mechanisms.
- Develop physical infrastructure in a sustainable manner, preserving and enhancing the surrounding natural

environment.

- Maintain international standards in infrastructure, services, and environmental quality.

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**2.5 Scope of Operations** In order to meet its strategic vision and objectives, PIEFZA must align its operations and responsibilities accordingly. The focus of PIEFZA's operations for the next three years is outlined below, and the institutional requirements for implementing these operations are addressed in Part II of the Corporate Plan.

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*Organizational Focus* Over the next three years, PIEFZA should evolve much more toward a customer-oriented, facilitating and promotional body, and become less of a traditional government regulatory authority. This evolution is mandated by both international best practices, and the highly competitive environment in which Palestinian IE/FZ program is operating. PIEFZA has endorsed this role in its 1999 Business Plan by committing itself to be a “streamlined, responsive, private-sector oriented organization.” The challenge now is to implement the necessary policies and procedures to create that organization.

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*IE/FZ Investment Promotion and Facilitation Role* One of the largest roles for PIEFZA to assume over the next three years will be that of investment promotion and facilitation. Development of a strong, pro-active investment promotion function will be a significant challenge, as currently PIEFZA has no institutional capability to perform this role. Although the IE/FZ program has to date been unusually successful in attracting investment in its first year, PIEFZA must not underestimate the importance of developing a strongly capable promotion function.

These two roles -- promotion and facilitation -- should be the core focus of PIEFZA's activities and functions over course of the

three-year plan. Once the Palestine Investment Promotion Agency (PIPA) is established, PIEFZA also needs to establish a harmonious and cooperative relationship with that agency to ensure that their promotional efforts are mutually supportive without being duplicative.

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*Investment Approval Role*

PIEFZA has made significant progress in implementing the one-stop concept for the approval of investor applications. Close coordination and cooperation has been developed with the relevant government authorities for the issuance of permits and certificates for companies to benefit from the incentives provided by law.

Total response time depends on whether the firm is classified as an A, B, or C firm by Ministry of Environment Affairs (MEnA) standards. A-type (low polluting) firms are routinely processed within 11 days (4 at PIEFZA and 7 at MEnA). B- and C-type firms require 4 days processing at PIEFZA, then 14 days at MEnA to have terms of reference drafted for the environmental impact assessment (EIA). Firms then spend an unspecified amount of time hiring a specialized environmental consulting firm and having the EIA conducted. Once the EIA is completed, a combined PIEFZA/MEnA review takes another 21 days.

Now that the investment approval process is functioning smoothly, PIEFZA's task over the next three years is to closely monitor the need to further simplify and automate this process. While the current practice is sufficient for the small volumes of applications that are received (approximately 25-35 per year), they are less suited for handling the larger volume that will be received as the program expands.

It is difficult to pinpoint when the current procedures may need further simplification or modification; PIEFZA will have to monitor processing times and volumes to make sure that the agency's current two-person office keeps pace with the inflow of applications.

Introducing greater automaticity will be the preferable way of dealing with a greater volume in applications, rather than increasing the number of personnel working on process. Greater automaticity to the approvals process is not only consistent with international best practice, but will free up agency resources to focus on the important goals of investment promotion and facilitation. To this end, PIEFZA will need to consider allowing the electronic filing of investment applications, the use of a short negative list to enable automatic approvals, and further streamlining of environmental clearance procedures.

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*Infrastructure Role*

In order to successfully "jumpstart" the IE/FZ program, PIEFZA has played a significant role in the provision of infrastructure in its first year. This work has been critical to the GIE's rapid development and the impressive number of companies that have been established in only one year.

In the next three years, however, PIEFZA should gradually evolve from coordinating the provision of direct offsite infrastructure for IEs/FZs. Greater attention should be paid to the development of specialized mechanisms and schemes that encourage private sector involvement (such as guarantees, "build-operate-own" and other concession arrangements, financing schemes, etc.). Again, this evolution in PIEFZA responsibilities will enable the agency to devote more attention to investment promotion and facilitation.

PIEFZA will also have to undertake an advocacy and supporting role as a regional plan is developed and implemented for the smooth transit of imports and exports. The long-term success of the IE/FZ program will depend on the development of greater integration of the territory's ports, transport infrastructure, and transportation corridors. In order to make sure that this greater integration occurs, PIEFZA will have to maintain and pursue a long-term vision of the future development of the IE/FZ program and the importance of this integration to the program.

*Policy Development and  
Advocacy Role*

As the IE/FZ program grows, PIEFZA will have an increasingly important role to play in policy development and advocacy. While the Palestinian Authority has introduced a number of important investment incentives and other measures to create an attractive investment climate, investment promotion is a highly competitive business. As other countries in the region and worldwide continually strive to improve their investment climates, the PA must likewise continue to introduce additional measures to enhance and/or preserve the quality of the investment climate.

As a principal point of contact with existing and prospective investors, PIEFZA is in a unique position to identify key policy issues that negatively affect the quality of the Palestinian investment climate. To date, however, PIEFZA has not developed a formal policy and planning capability, nor has it adopted an advisory role to the government. Nonetheless, a number of key issues have the potential to affect the competitiveness of the IE/FZ program and will have to be addressed by the PA in the next three years. They include labor policies, including labor mobility, technical training, and wage policies; taxation policies; incentives; trade and customs practices; and intellectual property protection, among others. In most other countries, free zone regulatory bodies play an influential and frequent role in the development of trade and investment policies.

Accordingly, PIEFZA needs to develop a policy and planning capacity that can identify needed improvements in the investment climate or in specific laws or regulations; work on an interactive basis with the relevant government organizations or agencies to achieve such reforms; and effectively communicate any such reforms to potential investors.

A policy and advocacy capability will be necessary both to identify current weaknesses in the policy and investment environment and

to anticipate changes that will be needed to strengthen the territory's competitiveness as an investment location. The role that PIEFZA should play in this area is immense, given the importance of the IE/FZ program in the Palestinian economy. Moreover, PIEFZA is at the moment uniquely qualified to undertake this role. No other PA institution is currently advocating trade policy issues and there is a real need to address this vacuum.

Finally, an expanded policy development and advocacy role will become critically important in the medium- to long-term, when the PA will need to move beyond IE/FZ enclaves to encourage the development of more flexible and innovative programs such as industrial cluster, freeports, shelter plans, cross-border sharing operations, and other arrangements.

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*Land Access and Development Role*

Much of the land that is most suitable for development in WBG is located in Category C or B areas according to current Israeli definitions. In order to ensure that land access does not pose a constraint to the development of the IF/FZ program, PIEFZA will have an important advocacy role to play with the Israeli authorities during the period prior to the final status solution to get this land designated for industrial use.

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*Monitoring IE/FZ Development Role*

PIEFZA one-stop shop staff currently check on firms to assess their compliance with environmental laws, and to a lesser extent, labor and civil defense requirements. The frequency of these visits depends on the classification (A, B, or C) of the firm, with A firms (the cleaner firms) being visited two or three times a year and dirtier firms (B and C) being visited up to a dozen times a year.

As the number of IE/FZ enterprises increases, PIEFZA needs to devise an effective monitoring and evaluation capacity. This capacity needs to be directed at: (i) ensuring that companies are in conformity with their legal agreements; and (ii) identifying operational problems and relaying such information to PIEFZA's

investor services function. Moreover, as the number of IE/FZ firms grows, the this capacity will have to grow commensurately.

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*Improving the Movement  
Of Goods and People*

The ultimate success of the IE/FZ program will rest on the development of improved measures to safely and efficiently move goods and people in and out of the IEs/FZs. Investors and employees must be able to cross borders with a minimum of difficulty and firms must feel that their goods and persons are protected at all times.

Currently, however, these requirements are not met. GIE users and management have identified the movement of goods and people as the single most important constraint facing the park. Given WBG's political and geographic situation, this will also be true for the other IEs/FZs as they develop.

This is highly political area and these issues will not be easily resolved. Nonetheless, PIEFZA must make a concerted effort to make progress on these issues in the next three years. Interviews with GIE firms have clearly indicated that they view PIEFZA as their problem solver. PIEFZA's role in this regard should be to protect and represent the needs of IE/FZ investors, current and future, and to make concrete and measurable progress on these issues on their behalf.

### 3. IE/FZ Development Goals and Objectives

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#### 3.1 Competitiveness Analysis

PIEFZA must operate in a dynamic environment where competitive advantage can shift rapidly from one location to another. The development of a medium-term corporate strategy needs to take into account the competitive environment that PIEFZA is facing and shall face in the near future. This environment will determine the types of industries that are likely to be attracted to WBG’s investment attributes, as well as the types of services and incentives that the WBG IE/FZ program will need to provide.

The Investor Targeting Strategy (ITS) Study<sup>1</sup> assessed the competitiveness of WBG IEs vis-à-vis potential competitors in the Middle East. This comparative benchmarking study identified WBG’s comparative advantages and disadvantages across a broad range of investment factors, as summarized in Table 3.1 below.

Given these comparative advantages and disadvantages, PIEFZA’s industry targeting should focus on those sectors that can take advantage of one or more of the following attributes:

- **Preferential access to key export markets.** WBG benefits from preferential *market access* to U.S., European, and regional markets, including Israel, making it a promising platform for export-oriented industries.
  
- **Competition based on quality more than cost.** Competition in the marketplace is driven by both *quality* and cost, to varying degrees, depending on the product. Given the relatively high factor costs in WBG, industry targeting should focus on those niche product categories that compete more on quality than cost. In general, the more differentiated the

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<sup>1</sup> “Investor Targeting Strategy for Industrial Estates in the West Bank and Gaza,” TSG-SITE Project, November 1999.

**Table 3.1: GIE and Planned Industrial Estates: Comparative Benchmarking Summary**

COMPETITIVE	UNCOMPETITIVE
<ul style="list-style-type: none"> <li>▪ <b>Preferential market access</b> to U.S., Europe and region, though access shared by others as well</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Political Risk</b> – higher perceived risk than others in region due to uncertain political status</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Availability of high-skilled, productive workforce</b> – more productive than Egypt, Jordan, Turkey and Dubai</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Import/Export Procedures</b> – longer delays than others in region</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>High-skilled labour costs</b> – competitive with others in region</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Lower-skilled labor costs</b> – though lower than Israel and Turkey, significantly higher than Egypt and Jordan</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Investment Incentives</b> competitive with Jordan, Egypt and Israel, but less favourable than Turkey and Jebel Ali</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Water Infrastructure</b> – water shortages shared by Israel and Jordan</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Port Infrastructure and Facilities (Haifa &amp; Ashdod)</b> – high quality comparable with others in region</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Cost of Water</b> higher than all other locations, except Jordan</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Airport Infrastructure and Facilities (Ben Gurion)</b> – high quality comparable with others in region</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Cost of Electricity</b> higher than other locations</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Power Infrastructure (thru Israeli grid)</b> – high quality comparable with others in region</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Costs of Telecommunications</b> higher than others for advanced services</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Telecommunications Infrastructure</b> on par with Egypt and Jordan, though not competitive with Israel</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Air Transport Costs</b> higher than Jordan, Egypt and Dubai</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Financial Sector</b> – potential access to capital markets is growing but not competitive with Israel</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Land and Building Costs</b> higher than Israel, Jordan, Egypt and Turkey</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Sea Transport Costs</b> among lowest in region</li> </ul>	

product, the more it tends to compete on quality rather than cost.

- **A high proportion of skilled labor.** A focus on niche industries producing higher quality, differentiated products, in turn, points to the need to focus on industries utilizing a relatively high proportion of skilled labor. In addition, wage rates in the higher skilled labor categories are more competitive with others in the region.
- **WBG linkages with Israeli industry.** WBG has the unique advantage, vis-à-vis lower-cost production centers such as Egypt and Jordan, of direct participation in and *experience with a dynamic and modern industrial base*. Many WBG workers have been trained in Israeli industry and have been exposed to higher levels of technology and industry

requirements. WBG can take advantage of its historical ties to Israeli industry to forge links with industry across the Green Line, including both Israeli companies and Israel-based multinationals.

- **Do not depend on rapid transportation by sea.** Given the present delays associated with importing and exporting, in the short-term, the WBG will not be able to meet the requirements of just-in-time production or other industries that depend on the efficient movement of goods, particularly those dependent on sea transport. While there is potential in the short-term that Rafah's air cargo facilities will become operational, the lack of a seaport will be an ongoing impediment. Therefore, industry targeting should focus on those niche activities that *do not depend on the timely movement of goods via sea transportation* for success.

These attributes are compatible with the requirements of a number of industries and industry sectors, as discussed below.

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### 3.2 Industrial Estate Development

Currently, the Gaza Industrial Estate (GIE) is the only IE in operation in WBG. Within the scope of this three-year plan, however, an additional four IEs are likely to become operational. These include Tarqumiya, Nablus, Rafah, and Jenin. In addition, the Khadoury Technology Development Center (KTDC) in Tulkarem, a science and technology park, will also be developed (the KTDC is discussed further below, in the context of technology park development).<sup>2</sup> Relative to most IE/FZ programs worldwide, this is a very ambitious and rapid pace of development.

The rapid physical development of these IEs over the next three years has several important implications for PIEFZA:

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<sup>2</sup> While the Jenin IE will probably have a high-tech component, it will be a mixed use IE, rather than entirely devoted to high-tech firms, as will be the KTDC; in addition, the high-tech firms locating in Jenin are more likely to be manufacturing, rather than the service firms likely to locate in the KTDC. For these reasons, Jenin is discussed in the context of IE development.

- The creation of a large amount of industrial space in a very short period means that PIEFZA must quickly undertake a substantial marketing and promotion effort to find tenants to fill that space.
- To be most effective in generating tenants for these estates, PIEFZA must focus its marketing and promotion activities on the types of firms and sources of investment likely to be attracted to these IEs and to the combination of attributes identified above.
- The successful generation of large inflows of tenants has important organizational and staffing implications for PIEFZA, in terms of the number of staff that must be hired to handle investment approvals, marketing and promotion, and investor aftercare. Moreover the sectoral focus of the marketing program will determine the type of sectoral marketing expertise that may be required within PIEFZA's Marketing and Promotions Directorate. These will have a concomitant impact on PIEFZA's budget and financial planning, as discussed in Chapter 12.
- Finally, the pace of IE development and the types and sources of investment will affect PIEFZA's short- and medium-term development strategies.

In order to assess these factors, and to understand how they will affect PIEFZA's development goals and objectives, it is necessary to first review the industry sectors likely to be attracted to WBG IEs, and the key sources of investment in those sectors. These are reviewed below.

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*Key Products and Markets*

Taking into account the advantages and disadvantages listed above, the investor targeting study identified a number of industry sectors and target activities as activities likely to be attracted to

the attributes offered by the IEs in the WBG. These sectors and activities are.<sup>3</sup>

**High value-added apparel:** Within this sector, the following niche product categories demonstrate the greatest advantage for WBG, in terms of both comparative and competitive trends:

- Men’s or boys’ trousers of woven textile fabrics;
- Men’s or boy’s shirts of woven textile fabrics;
- Women’s or girls’ trousers of woven textile fabrics;
- Women’s or girls’ blouses of knitted or crocheted textile fabrics;
- Women’s or girls’ lingerie, brassieres, panties, etc. of woven, knitted or crocheted textile fabrics; and,
- Sweaters, knitted or crocheted.

**Consumer electronics and electrical appliances:** The most likely product categories are the following:

- White goods (clothes washers and dryers, refrigerators, dishwashers);
- Small kitchen appliances;
- Televisions and radio receivers;
- Personal care appliances (e.g., shavers, hairdryers);
- Telephone sets; and
- Small office appliances (e.g., adding machines).

**Stone and marble:** Cutting and finishing of high-quality dimension stones (assuming that an appropriate and dedicated site is located in Hebron).

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*Key Sources of Investment*

As identified in the ITS, the key sources of investment for these sectors are:

**Apparel:** The most promising sources of investment into the industrial estates program include the following:

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<sup>3</sup> A number of information technology-related sectors were also identified as probable; these are discussed below in the context of technology parks.

- Medium- to large-size Israeli apparel manufacturers engaged in the above-listed product categories;
- Medium- to large-size European apparel manufacturers, primarily from Italy, France, and the UK, engaged in the above-listed product categories;
- Medium- to large-size apparel manufacturers in Hong Kong, Korea, and Taiwan, engaged in the above-listed product categories.

**Consumer Electronics and Electrical Appliances:** In the short-term, electronics manufacturing activities will be based on the existing skills base and local industry experience, i.e. manufacturing and assembly of consumer electronics, electrical appliances, and basic telecommunications equipment. The industrial estates, particularly those in the West Bank, have the potential to attract both Israeli and multinational electronics manufacturers. The most likely sources of investment are:

- Israeli manufacturers, particularly in consumer electronics and telecommunications equipment, seeking to move their manufacturing and assembly operations to lower-cost locations “offshore”, either through direct investment/joint ventures or through sub-contracting/licensing agreements with local producers;
- Multinational (Denmark, Italy, U.S., Japan and Korea) and Israeli manufacturers interested in accessing the growing regional market through “point-of-sale” manufacturing and assembly operations, either through direct investment/joint ventures or through sub-contracting/licensing agreements with local producers.

In addition to investment in assembly activities, there is also potential for the industrial estates to attract investment in after-sales repair and maintenance services for the regional market.

**Stone and marble:** Investors from stone and marble-producing countries – particularly Italy and Spain – are the most promising targets for investment.

**Other sources of investment:** Three of the planned IEs – Nablus, Tarqumiya, and Jenin – will primarily be “municipal” IEs; that is, estates that will absorb existing WBG companies.<sup>4</sup> Many of these companies are currently located in crowded municipal areas where there is insufficient space for them to expand their operations; some companies are also seeking a permanent location (many industrial firms in Nablus, for example, are operating on temporary permits).

Another impetus behind the development of these estates is the desire of the PA to end the current dispersion of industry in residential areas and to concentrate industry in a single location for environmental, health, and safety reasons. Most of this investment in these IEs, particularly in the short-term, is likely to be in the form of the relocation of existing investment, in a variety of sectors, rather than from new investment.<sup>5</sup>

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*Short-Term Development Strategy*

The short-term (12-18 months) development strategy for the WBG IEs rests on the following:

- **Initiation of PIEFZA’s marketing and promotion strategy.** While the GIE has been able to attract tenants in the absence of such marketing, the volume of industrial space that will be developed in the next three years will require a systematic and vigorous investment generation program.

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<sup>4</sup> Tarqumiya is also likely to attract Israeli investment in traditional sectors such as apparel, food processing, footwear, and consumer electronics assembly.

<sup>5</sup> An assessment of likely demand for space within the Nablus IE indicated that 80 percent of the total space required was for relocation purposes. This assessment also indicated a marked lack of interest in the zone by firms in Jordan that had Middle East representation. UNCTAD, “Nablus Industrial Estate Feasibility Study,” Final Report, October 1998, pp. 3-24, 3-27.

- **Improved mechanisms for the movement of goods and people.** As discussed in the previous chapter, current difficulties affecting the movement of goods and people have to be eased to assure investors that logistical problems will not constrain their operations. This is the single most important constraint currently affecting the GIE, and may also hamper Rafah’s development.
- **Successful development and expansion of a backward linkages program:** The economic impact of an IE program can be significantly expanded if IE firms purchase their inputs from local suppliers. As shown in IEs worldwide, however, such purchases are unlikely to occur in the absence of a pro-active effort encouraging the development of such “backward linkages” between IE firms and local firms. PIEFZA should accordingly initiate a pilot backward linkages program as part of its short-term strategy, and will need to expand this program commensurately in the medium- to long-term with the growth of the IE program.

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*Medium- to Long-Term Development Strategy*

In the medium- to long-term (18 months and onward), further development of the IE sector, and the benefits to be derived from that sector, will rest on the following:

**Diversification of investment sources and types:** The medium-to long-term objective of the IE program should be to diversify the types of investment into higher-scale, greater value-added activities. The program should also aim at the diversification of investment sources, away from the Palestinian and Israeli sources that are likely provide the bulk of the investment in the short-term, to the United States, European, and other sources.

**Increase the proportion of new investment in the Nablus, Tarqumiya, and Jenin IEs.** In the short-term, much of the investment in these three IEs is likely to be a transfer of existing firms into new locations, representing little increase in employment

of economic impact. Once the bulk of these firms have been accommodated, these estates should focus on attracting a higher proportion of new investment.

**Development and implementation of an investor maintenance program.** The medium-term success of PIEFZA’s marketing and promotion activities will rest in large part on how satisfied existing IE tenants are with the IE program and the WBG business climate. Any firm interested in establishing operations in the IEs will first interview existing firms to determine whether or not these firms would recommend establishing operations in WBG.

Accordingly, in order to ensure that its marketing and promotion activities are not undermined, PIEFZA will also need to reach out to existing investors on a regular basis. This can best be done through the implementation of an investor maintenance program whose staff regularly survey investors to assess their satisfaction; meet regularly with investors to identify their needs and assist in resolution of any problems; and identify satisfied tenants that can be used for promotional “testimonials” commending the WBG as an investment location. Such a program is also important in generating investment because in many countries, re-investment or expansion by existing firms is a primary source of new investment.

**Free zone development:** Finally, the types of activities taking place in the IEs, and the types of investment that would be attracted to them, could be expanded through the development of free zones. Free zone development could occur either through the designation and conversion of selected areas with one or more IEs, or through the conversion of an entire IE to a free zone. In order for this to occur, however, PIEFZA would have to see that appropriate customs, security, logistics, and other procedures are developed.

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*Projected IE Investment*

The projected flow of new projects into each IE is shown in Table 3.2 for Years 1-5 (2000 to 2004); the IE employment and under-roof space requirements for each IE are shown in Table 3.3 and

3.4, respectively.

**Table 3.2: Estimated New IE Projects, Per IE and Per Year**

	Existing	2000	2001	2002	2003	2004
<b>LOCAL</b>						
Gaza		10	10	10	10	10
Rafah		0	0	0	0	0
Jenin		0	10	10	10	10
Nablus		0	0	15	14	13
Tarqumiya		0	0	15	17	17
Subtotal		10	20	50	51	50
<b>FOREIGN</b>						
Gaza		5	5	5	5	5
Jenin		0	5	5	5	5
Nablus		0	0	0	1	2
Tarqumiya		0	0	5	5	5
Rafah		0	0	5	10	15
Subtotal		5	10	20	26	32
<b>TOTAL</b>	<b>17</b>	<b>15</b>	<b>30</b>	<b>70</b>	<b>77</b>	<b>82</b>
<b>CUMULATIVE</b>	<b>17</b>	<b>32</b>	<b>62</b>	<b>132</b>	<b>209</b>	<b>291</b>

**Table 3.3: Estimated IE Employment, Per IE and Per Year**

	Existing	2000	2001	2002	2003	2004
<b>LOCAL</b>						
Gaza		650*	650	650	650	650
Rafah		0	0	0	0	0
Jenin		0		650	650	650
Nablus		0	0	975	910	845
Tarqumiya		0	0	975	1,105	1105
Subtotal		650	1,300	3,250	3,315	32,505
<b>FOREIGN</b>						
Gaza		325*	325	325	325	325
Jenin		0	325	325	325	325
Nablus		0	0	0	65	130
Tarqumiya		0	00	325	325	325
Rafah		0	0	325	650	975
Subtotal		325	650	1,300	1,690	2,080
<b>TOTAL</b>	<b>1,105</b>	<b>975</b>	<b>1,950</b>	<b>4,550</b>	<b>5,005</b>	<b>5,330</b>
<b>CUMULATIVE</b>	<b>1,105</b>	<b>2,080</b>	<b>4,030</b>	<b>8,580</b>	<b>13,585</b>	<b>18,915</b>

**Table 3.4: Estimated Under-Roof Space Requirements, Per IE and Per Year\***

	Existing	2000	2001	2002	2003	2004
Gaza	25,500	25,500**	22,500	22,500	22,500	22,500
Rafah	0	0	0	7,500	15,000	22,500
Jenin	0	0	22,500	22,500	22,500	22,500
Nablus	0	0	0	22,500	22,500	22,500
Tarqumiya	0	0	0	30,000	33,000	33,000
<b>TOTAL</b>	<b>25,500</b>	<b>22,500</b>	<b>45,000</b>	<b>105,000</b>	<b>115,500</b>	<b>123,000</b>
<b>CUMULATIVE</b>	<b>25,500</b>	<b>48,000</b>	<b>93,000</b>	<b>198,000</b>	<b>313,500</b>	<b>436,500</b>

\*Assumes an average of 1500 m2/project and occupancy rates of 90% for Jenin, Tarqumiya, and Rafah, and 80% for GIE and Nablus.

The following assumptions were used as a basis for these projections:

- The start-up dates assumed for each IE were: Gaza (end 1998); Jenin (early 2001); Nablus (end 2001); Tarqumiya (end 2001); and Rafah (end 2001). The number of companies estimated to open during each IE's first year of operation was pro-rated accordingly.<sup>6</sup>
- All the estates, with the exception of Rafah, are assumed to follow the GIE pattern in terms of local vs. foreign investment ratios (i.e., local investment/relocation will predominate, particularly in the early years of development).
- Building on the GIE base case, the annual number of new projects in each IE assumes that Tarqumiya and Jenin, given their locations and larger established industrial bases, will be more attractive to both foreign and local investors than Rafah.

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<sup>6</sup> It should be noted that these totals may be somewhat understated because no allowance is made for any expansions or reinvestments which might affect the totals for 2003 and 2004.

It should be noted that the estimates for Tarqumiya and Rafah have been made prior to the completion of the feasibility and marketing studies for these two estates. As a result, the estimates for these zones -- and therefore the projected totals -- are very preliminary, and may have to be revised once the feasibility studies are completed.

The implications of these targets for PIEFZA's organization and staffing are discussed at the end of this chapter.

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### 3.4 Technology Parks

Currently, the KTDC is the only park devoted to high-tech service companies; as noted above, the Rafah IE will be a mixed use park, and the high-tech companies locating there are more likely to be manufacturing, rather than service, operations. Consequently, the discussion below discusses technology park development primarily in the context of the KTDC.

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#### *Key Products and Markets*

Based on WBG's competitive attributes, the following products are likely to be produced in technology parks such as KTDC:<sup>7</sup>

**Software Development:** It is envisioned that software development will be the primary focus of the KTDC, both in the short-term and in the long-term. The key activities are likely to be software coding, customization, conversion, and maintenance, as well as the development of Arabized or other localized packaged software for the regional market.

**Call Centers:** As the insurance, banking, credit card, and information services industries grow in the Middle East, the demand for telesales, customer service, and technical help desks

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<sup>7</sup> These products and sectors, and the rationale for why these industries would be attracted to Khadoury, are discussed in detail in "Feasibility Study for the Khadoury Technology Development Center at Tulkarem," Prepared by The Services Group for the USAID SITE Project, Final Report, February 2000.

is increasing. Industry surveys in the U.S. and Israel indicate the potential for establishing call center and help desk service centers in West Bank/Gaza to service this growing market, provided the required telecommunications infrastructure and pricing are in place.

**Data Conversion:** Data and vector conversion, as well as other back office activities, are promising activities for KTDC investment. While local industry is at a relatively nascent stage, the growing need for such services within West Bank/Gaza, particularly by the PA, is likely to be the prime driver of investment in the short-term.

**Other IT Services.** Other information technology services – such as web design, e-commerce, enterprise resource planning, and network design and installations – are likely, aimed at servicing the local and, perhaps, Israeli market.

**Consumer Electronics and Electrical Appliances.** Many of multinational electronics manufacturers are setting up “point-of-sale” manufacturing plants to service the regional market. In addition, the Israeli consumer electronics, civilian telecommunications equipment, and household appliance sector provide substantial potential for either joint ventures or sub-contracting arrangements for “offshore” manufacturing. In addition, there is also potential for the KTDC to attract investment in after-sales repair and maintenance services for the regional market.

**On-Site Training.** While it is envisioned that the public sector will play a strong role in establishing a training center at the KTDC, there is also potential to attract private-sector investment in training services, such as computer language/system certification and business development programs. While several local companies have begun offering training programs, both authorized and unauthorized, growing interest of local graduates in the IT sector has produced a shortfall in the supply of such programs.

In the short-term, investment in the KTDC is likely to be primarily

dominated by basic software development activities and IT services, as well as consumer electronics assembly and repair services.

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*Key Sources and Targets of Investment*

Based on the findings of the KTDC Feasibility Study, KTDC is likely to attract investments primarily from Israeli companies and U.S. and European multinationals that already have a presence in Israel, as a complement to the neighboring Haifa-Herzliya high-tech corridor. However, Palestinian companies will play a significant role, as the majority of Israeli and multinational companies indicated that they would prefer to have their Palestinian partners manage the day-to-day operations of any joint ventures or other partnership agreements.

In addition, the technology incubator at the KTDC is likely to attract mainly Palestinian entrepreneurs. The KTDC is unlikely to attract a significant degree of investment from the Arabic-speaking region, as few indigenous IT companies have attained the level of capacity required to expand “abroad” and most are relatively inward looking, with output fulfilling local market requirements and little destined for export. The Arabic-speaking region offers itself, instead, as a growing market for Israeli and multinational enterprises.

Accordingly, the following are likely to be sources of investment in the KTDC:

- Israel-based companies (both software houses and electronics companies with “in house” software development needs) interested in “outsourcing” coding/programming activities to meet manpower shortages, including business and database management applications;
  
- Israel-based multinational companies (both software houses and electronics companies from US and Europe with “in house” software development needs) interested in

producing Arabized or other localized packaged software (primarily consumer and business applications and database management applications) for the regional market;

- Local Palestinian entrepreneurs, working in partnership with Israeli or multinational companies, or attracted to the KTDC's incubator program.
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*Short-Term Development Strategy*

A short-term development strategy for technology parks such as the KTDC should include the following elements:

**State-of-the-art telecommunications infrastructure:** KTDC (and any other high technology park) needs to offer tenants access to the highest quality telecommunications facilities. These should include a state-of-the-art fiber optic telecommunications system and low-cost, high-speed telecommunications services through a dedicated KTDC satellite earth station. This will likely require the limited deregulation of the KTDC's telecommunications infrastructure. While PALTEL appears willing to liberalize services within the park, it appears that under the interim status agreement, KTDC's access to international telecommunications services will require Israeli approval. Obtaining such approval will have to be a PIEFZA priority, if development of the KTDC is to proceed.

**Human resources placement services:** WBG currently lacks effective linkages between supplies of technically skilled labor and potential employers of such labor. In order to consider investing in Tulkarem, firms need to know that adequate supplies of technical workers are available. PIEFZA's short-term development strategy needs to include such human resources placement services that can link labor supply with labor demand.

**Human resource strengthening:** Potential investors also need assurance that future supplies of technical labor will be adequate. Accordingly, the short-term development strategy for this sector needs to include training programs and facilities to ensure that the training provided to future employees is matched to industry needs; this also needs to be part of PIEFZA's medium- to long-

term strategy for the sector. A Tulkarem-specific component is currently being implemented.

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*Medium- to Long-Term  
Development Strategy*

The medium- to long-term development strategy for technology parks in WBG should focus on the following:

**Diversify types of investment:** In the medium- to long-term, there should be a greater focus on encouraging the attraction of both call center activities, as well as more sophisticated and larger investments. This will require a shift in focus by KTDC management to limit the entrance of electronics assembly and repair services, thereby preserving space for more high-tech activities. It will also require an expanded promotional focus, to target potential firms in these larger markets.

**Diversify sources of investment:** As the data entry and vector conversion and remote processing services becomes more established and the regional market for such services grows, the KTDC will have the potential to attract investments from the U.S. and/or Europe. This will require a change in focus in PIEFZA's promotional strategy from one targeted primarily in the near-term at WBG- and Israel-based companies, to one targeted at U.S.- or European-originating companies.

**Reassessment of investment incentives and protections:** While WBG offers investors investment incentives in the form of tax holidays, these holidays do not currently benefit investors who are taxed on a global basis in their home jurisdictions. These incentives will be competitive only if WBG concludes double taxation agreements that contain tax sparing provisions that would allow investors to credit holidays against taxes charged in their home jurisdiction.

Similarly, prevailing intellectual property legislation is insufficient in WBG. Even if new draft legislation is passed, investors will require

a robust regulatory and implementing framework that applies the new laws effectively and transparently.

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*Investment Projections* As projected in the KTDC feasibility study, development of the KTDC is likely to lead to a small quantity of incoming investments, as shown in Table 3.6. These investments are also likely to be relatively small in terms of total employment and value.

**Table 3.5: KTDC Demand, 2000-2004**

	2000	2001	2002	2003	2004**
<b>No. of Investments, per year*</b>	0	4	6	7	9
<b>Sq.m. Required, per year</b>	0	2,000	3,000	3,500	4,500
<b>Estimated Employment, per year</b>	0	100	150	175	225

\*Excludes users of the multi-tenant work space and public investments; includes investments in software development, call centers, data entry/processing, office service provider (1 firm), private training firm, pilot manufacturing, and precision assembly.

\*\* May include some re-investment and expansion.

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**3.3 Implications for PIEFZA’s Organization And Staffing**

Combining the above investment projections for IE development and technology park development, indicates that WBG will attract the following number of companies, as shown in Table 3.7.

This has several implications for PIEFZA’s organization and staffing:

**Table 3.6: Combined IE and KTDC Demand, 2000-2004**

	Existing	2000	2001	2002	2003	2004
<b>Total No. of Investments, per year</b>	17	15	34	76	84	91
<b>Cumulative Investments</b>	17	32	66	142	226	317
<b>Total sq.m. required, per year</b>	25,500	22,500	47,000	108,000	119,000	127,500
<b>Cumulative sq.m.</b>	25,500	48,000	95,000	203,000	322,000	449,500
<b>Total Employment Generated, per year</b>	1,105	975	2,050	4,700	5,180	5,555
<b>Cumulative Employment</b>	1,105	2,080	4,130	8,830	14,010	19,565

- For each foreign company establishing operations in under the IE/FZ program, it can be assumed that PIEFZA will receive 4 to 5 inquiries from investors, for an estimated total of 60-75 inquiries per year in 2000, rising to 304-380 in 2002. Each of these inquiries will have to be handled and tracked by PIEFZA employees as part of PIEFZA's investor tracking system (discussed in Chapter 7), and a sufficient number of staff must be in place to capably handle these inquiries on an expeditious basis.
- Based on the GIE's experience to date, the rejection rate of applications is relatively low. Accordingly, the number of applications that will have to be reviewed and processed each year are likely to be only slightly larger than the number of new investments per year – approximately 15 in 2000; 34 in 2001; and rising to 76 in 2002. Again, PIEFZA

staffing and/or application processing procedures must be appropriate to handle this volume

- The total number of firms that will have to be handled through PIEFZA's investor maintenance program will rise from 32 (15 new firms plus the 17 firms currently operating in the GIE) in 2000, to 142 by 2002, and 317 by 2004. One staff member will be sufficient to handle this number of firms for 2000-2001, but a second staff member may be required late in 2002 to help handle this responsibility into 2003-2004.
- PIEFZA's Marketing and Promotions Directorate will need to generate investment utilizing 22,500 sq.m. of under-roof space in 2000; an additional 47,000 sq.m. in 2001; and a further 108,000 sq.m. in 2002.

## **PART II: INSTITUTIONAL DEVELOPMENT**

## 4. Institutional Roles and Relationships

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**4.1 Institutional Context** As discussed in Chapter 2, PIEFZA must organize its activities over the next three years in terms of a defined strategic focus and a set of coherent objectives for carrying out that focus. PIEFZA's activities also need to reflect the fact that the WBG IE/FZ program is operating in a highly dynamic environment where competitive advantage can shift rapidly. These factors provide the context for PIEFZA's relationships with other agencies (the focus of this chapter); its organizational structure and activities (discussed in Chapter 5); and its staffing and personnel policies (discussed in Chapter 6).

From an institutional perspective, PIEFZA must be established as an autonomous and flexible agency which is capable of implementing its strategic focus and rapidly responding to competitive challenges within the region. These requirements have implications for PIEFZA's relationship with the Ministry of Industry and the roles and responsibilities of PIEFZA's Board of Directors, Director General, and operational Directors.

PIEFZA must also be able to operate cooperatively and effectively with the other stakeholders – such as Israeli Customs and security -- that are critical to the ultimate success of the IE/FZ program. Finally, PIEFZA must address weaknesses in the legal and fiscal environment that affect the program's competitiveness vis-à-vis its regional competitors. These issues will be addressed below.

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**4.2 Organizational Roles and Responsibilities** PIEFZA's long-run success will depend in large part on the effectiveness and strength of its management. To this end, the roles and responsibilities of its oversight ministry, its board of directors, and its chief executive must be clear cut and well defined. While these roles and responsibilities were somewhat fluid and overlapping in PIEFZA's first year of operation, it is

important that the organizational roles and responsibilities of these various actors be clearly defined and adhered to in the future.

In particular, it is essential that all three of these entities play the roles designated in the PIEFZA Law. As clearly intended in the Law, PIEFZA is to operate as an autonomous public-private body. This institutional format was deliberately selected to maximize the synergy created by having the private and public sector represented on the board and to create a streamlined, efficient, customer-service oriented and promotionally aggressive entity. Accordingly, the Law sets forth specified roles for the Ministry of Industry, the Board, and by implication, the Director General. A failure to adhere to these designated roles and responsibilities will not only substantively undermine PIEFZA's effectiveness, but will also undermine its credibility in the eyes of the private sector as a non-partisan and independent entity.

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*Relationship with the Ministry of Industry*

PIEFZA operates directly under the Ministry of Industry and the Minister of Industry serves as Chairman of PIEFZA's Board of Directors. The Ministry has provided both technical support (e.g., human resources, salary compensations, office space in Ramallah, and basic working tools), as well as operational support (e.g., providing strong support for the agency's activities and facilitating the signing of memoranda of understanding between PIEFZA and various governmental institutions).

During its first year of operation, the Ministry's active support has been a highly important in PIEFZA's success. PIEFZA's heavy dependence on the Ministry, however, has effectively undermined the autonomy for the institution that was envisioned in the PIEFZA law.

The challenge in the upcoming three years will be to increase the agency's operational autonomy and allow it to develop its own dynamics and implementing capabilities. This development would be in strict compliance with both the law and in accordance with international best practices. This will require that the Ministry take a more hands-off role than it has to date, and limit its role to

that of strategic oversight and management functions such as:

- set out the main policy objectives and performance indicators by which PIEFZA should be judged;
- allocate any financial support that will be provided by the Ministry to the agency and provide guidelines for its use;
- approve the annual business plan; and,
- monitor periodic reports presented by the Board of Directors.

As stated in the law, the Ministry will continue to have a role through the Minister's position as Chairman of the Board, thereby enabling the Ministry to exercise its oversight capacity.

**Next Steps**

**Task 1: Modify the PIEFZA organizational structure so that the Director General reports directly to the Board of Directors.** Implementation of this statutorily-consistent role for the Ministry and the Board of Directors will necessitate a modification of PIEFZA's current organizational structure. At the moment, the Board is an adjunct of the Minister of Industry, and the PIEFZA Director General reports directly to the Minister of Industry.

In order to be consistent with the PIEFZA Law and international best practices, the Board should serve as the organizational interface between the Ministry and the Director General. Since the Minister of Industry serves as Board Chairman, the Ministry will still effectively exert a strong oversight capability over PIEFZA. This change will make clear, however, that the Board as a whole has a clear cut role in the overall strategic management of PIEFZA. (This organizational change is discussed further in Chapter 5.)

**Task 2: The Ministry of Industry will increase the operational autonomy of PIEFZA.** PIEFZA's autonomy has been understandably limited in its first year due to its dependence on the Ministry of Industry. The challenge of the next three years is to initiate a process of operational autonomy that will allow the organization to develop its own dynamics and implementing

capabilities. This development will be in full compliance with the Law and in accordance with international best practices.

**Task 3: The Ministry of Industry will continue its strong advocacy of PIEFZA's activities and objectives:** The Ministry's strong support of PIEFZA has been a key factor behind PIEFZA's success to date. This support and advocacy needs to be continued, even as the Ministry allows the agency to assume a more autonomous role.

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*Role and Responsibilities of the Board of Directors*

Under the law, the board of directors is comprised of 11 members. Seven of these directors represent the public sector: the Minister of Industry, who serves as Chairman; representatives of the Ministries of Economy and Trade (who serves as Vice Chairman), Finance (who serves as Secretary), Industry, Planning and International Cooperation, Local Government, and Environmental Affairs. In addition, there are four private sector members: two representing the private developers and two representing the chambers of commerce and industry and industrial federations. The private sector members are appointed by their own organizations and this practice should be continued to preserve the board's credibility with the private sector.

In the next three years, the board should adhere to the responsibilities allocated to it under the PIEFZA Law (under Article10):

- appoint the PIEFZA Director General;
- endorse the PIEFZA work plan within the framework of general policy;
- supervise industrial estates/industrial free zone lands, and public entities located there and publish periodic reports;
- promote industrial estates and industrial free zones, locally and internationally, with the aim of attracting investment, and cooperated with other relevant authorities in this regard;
- develop PIEFZA regulations in relation to financial, administrative, and technical matters inside industrial estates

- and industrial free zones;
- create a general policy for personnel recruitment and establish salary scales;
- approve the employment of advisors;
- issue debentures, as allowed for by the law; and,
- take decisions pertinent to the tasks of PIEFZA.

**Next Steps**

**Task 4: Establish written performance criteria for the Director General.** The Board should establish explicit performance criteria specifying what outcomes the Director General should achieve during his tenure. These criteria should be incorporated into the Director General's contract, and he should be held accountable to them on an annual basis.

**Task 5: The Board should act as an interface between the Ministry of Industry and the Director General.** By adopting this role, the Board will create a “firewall” than insulates the Board from the Ministry and allows PIEFZA to act autonomously, with the Director General being held accountable for its results. Nonetheless, since the Minister of Industry serves as the Board Chairman, the Ministry will still be able to exercise its oversight function.

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*Role and Responsibilities of the Director General*

The role and responsibilities of the Director General are clearly outlined in the law. Under the Law (Article 10), the Board of Directors clearly holds the power for designating PIEFZA's Director General, although the actual appointment is made by the Council of Ministers (under Article 11). In order to ensure the autonomy and credibility of the institution, the Law also clearly states that the General Manager may not be involved, either directly or indirectly, in any project or contract subscribed to by PIEFZA..

The Director General serves as the executive officer of the agency and is charged with the following duties (under Article 11):

- implement policies as determined by the Board of Directors;

- organize and supervise daily operations;
- submit operation and performance reports to the Board on a regular basis; and,
- participate in local and overseas activities related to PIEFZA work.

In addition to these legally defined responsibilities, the Director General should also serve as the agency's principal public representative and spokesman, both before investors and the private sector, as well as before the government, the media, and the general public.

**Next Step**

**Task 6: The Director General will manage PIEFZA on a day-to-day basis and he will be held accountable for the agency's performance.** The Director General is responsible for managing the agency and its staff in a way that will fulfill the agency's objectives. He should be held accountable for the agency's performance on an annual basis.

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*Role and Responsibilities of the Operational Directors*

PIEFZA is currently organized on a functional basis into five Directorates or areas of operation (e.g., Finance and Administration, Marketing and Promotions, Operations Management). Each operational Directorate is managed by a Director. These positions are presently vacant (discussed further in Chapter 6), but when filled, these Directors will be responsible for managing the operations and staff of each Directorate in accordance with PIEFZA's strategic focus and objectives (as discussed in Chapter 2).

**Next Step**

**Task 7: Written performance objectives should be designed for each Directorate, and each Directorate's Director should be held accountable for achieving those objectives.** These specific performance criteria should directly reflect PIEFZA's strategic focus and objectives. In keeping with PIEFZA's corporate model, directors who fail to achieve these objectives should -- consistent with personnel and administrative practices discussed below -- be relieved of their duties.

**4.3 Coordination with Stakeholders**

One of PIEFZA's most notable achievements has been the effectiveness of its relationships with the other parts of the PA. A smooth working relationship has been established for the provision of offsite infrastructure and services at the GIE. Similarly, PIEFZA has successfully established a functioning "one-stop shop" for investment approvals that provides all approvals and permits on a fast-track basis.

In the upcoming three years, PIEFZA will have to focus on creating similarly cooperative working relationships with three key sets of stakeholders: the PA promotion body, Palestinian and Israeli Customs, Palestinian and Israeli security forces, and IE/FZ developers.

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*PA Promotion Body*

The Palestinian Investment Promotion Agency (PIPA) will be responsible for all territory-wide and international image-building activities. PIEFZA is responsible filling the IEs/FZs with tenants, however, and will handle all sector-related and IE/FZ-specific promotional activities. IE/FZ-specific promotion is a specialized form of investment promotion requiring a different level of detail, a targeted sectoral approach, and a focus on investment facilitation that is best handled by a IE/FZ institution. International experience in countries such as Jamaica and the Philippines has shown that such a division of promotional responsibilities works effectively. PIEFZA will meet with PIPA officials to develop a cooperative and mutually supportive relationship between the two institutions.

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*Customs*

While substantive technical assistance has been devoted to the design and adoption of appropriate customs procedures for the GIE, the institutional relationship between PIEFZA and Customs still needs to be enhanced if the IE/FZ program is to generate the jobs and investment that is anticipated. This will be particularly

true for the development of improved mechanisms for rapidly moving goods in and out of the IE/FZs. While only one firm currently exports its production outside of Palestinian-held territory, this proportion will grow, particularly with the development of new private industrial estates, as well as with any future free zone development.

The ability to rapidly clear imports and exports is vital for export-oriented companies. Consequently, the development of improved institutional relationships with Palestinian and Israeli Customs will be a critical component of this development (the other essential element is the design of effective and appropriate customs procedures, as is discussed in Chapter 8). Moreover, rapid customs procedures will be essential to the successful marketing of the Palestinian IE/FZ program.<sup>1</sup>

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*Security*

As with customs, the development of improved institutional relationships with Palestinian and Israeli security will be critical to the marketing and growth of the IE/FZ program. A sound working relationship with security agencies will be essential to ensure that labor and personnel can move easily and quickly in and out of the IEs/FZs.

Since the efficient movement of people and goods across the border is critical to the future success of the program, PIEFZA needs to formalize security and customs arrangements with Palestinian and Israeli Customs and security bodies. One of the main challenges for PIEFZA will be to ensure that these institutions are sensitive to the importance of these issues and view themselves as stakeholders in the program. To this end, it is recommended that PIEFZA spend a substantial amount of the organization's time to establish clear procedures in these areas.

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<sup>1</sup> As early as 1996, the program's ability to move both goods and people was recognized as key to the program's ultimate success.

*Developers*

The major private sector stakeholders of PIEFZA, as in any IE/FZ program, are the registered companies and developers. To date, PIEFZA has only had to deal with one developer – PIEDCO, the developer of the GIE. This relationship, while ultimately successful, put a significant strain on PIEFZA's staff resources as the institution was forced to deal with day-to-day operating concerns of GIE tenants that should have been dealt with by GIE management.

In addition, the current relationship between PIEFZA and PIEDCO, while well coordinated, is essentially ad hoc and is not formally institutionalized. As needed, coordination meetings are arranged by the PIEFZA Director General and the Director General or Operations Manager of PIEDCO, the GIE developer.

**Next Steps**

**Task 8: Develop internal guidelines detailing developers' responsibilities.** While PIEFZA's level of intervention in the GIE's establishment was justified, given the importance of the successful establishment of WBG's first industrial estate, PIEFZA will be diverted from its core focus if similar levels of support are extended to future developers. Accordingly, PIEFZA needs to formalize the relationship between PIEFZA and developers by developing internal guidelines. These guidelines should define what assistance PIEFZA is -- and is not -- willing to provide to developers. Such guidelines will not only ensure that PIEFZA will not overextend its resources, but it will also ensure that future relationships occur on an impartial basis.

**Task 9: Develop procedures whereby developers share the cost of investment promotion.** IE/FZ developers will benefit financially from PIEFZA's marketing and promotion efforts. Accordingly, they should help to share the cost of these activities. PIEFZA should develop an explicit cost-sharing formula that states what fees each developer should pay for each tenant that is referred to an IE/FZ by PIEFZA and which signs a lease. The amount of the payment should be based on the square footage that is rented.

This system has been used quite successfully in Costa Rica and is under consideration in a number of other countries. It has the additional advantage of being performance-based; that is, developers only pay for those firms that actually establish operations. As a result, developers do not subsidize unsuccessful promotional activities, and PIEFZA has an added incentive to ensure that its promotional activities and investor servicing are highly effective.

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**4.4 Legal and Fiscal Setting**

Several legal and tax issues do not conform to international best practices and have the potential to affect the competitiveness of the IE/FZ program in attracting investment. These are reviewed below.

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*Legal Issues*

The one-stop shop concept currently implemented by PIEFZA has enabled the practical integration of the Industrial Estates Law and Free Zones Law with the Investment Incentives Law. While this has worked effectively in the short-term, it is clear that in the future it will be necessary to incorporate changes to these laws in order to meet international best practices. These changes will have to address the following: the dual status of IE/FZ companies; the vague criteria for obtaining some incentives; and the insufficiency of incentives for high-tech companies.

*Dual status companies:* Companies operating in the IEs can enjoy both IE and free zone benefits. This dual status creates confusion and there should be changes in the law to allow for non-contradictory dual status and access to the incentives allowed for under both laws. In addition, the need for the further harmonization of the incentives offered under each law should also be addressed. While does not currently pose an impediment, resolution of this issue will be important once free zone development begins.

*Weak incentive structure:* Certain specific incentives needed to attract high-tech companies or to encourage research and development are lacking; for example, current intellectual property protection is insufficient. Similarly, while WBG offers investment incentives in the form of tax holidays, these do not benefit foreign investors who are taxed on a global basis in their home jurisdictions. The incentives regime should be modified to reflect international best practices and to be competitive with competing countries in the region.

**Next Steps**

**Task 10: Modify the IE and FZ laws to address the dual status of IE/FZ companies and to improve the competitiveness of the incentives regime.** To date, the issues of dual status companies and the weak incentives structure have not been significant impediments to investment. Nonetheless, it is important to address the issues in the near-term before they begin to have a negative impact on FZ and technology park development.

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*Tax Issues*

A number of tax issues are of concern to Israeli investors and may deter future investment. While to date they probably have not deterred significant investment inflows, these issues will be of increasing importance once the Tulkarem and other high technology zones are developed.

These tax issues are regard policies for: tax sparing, drawback, individual taxation of Israelis working in the GIE, guarantees of investment, and VAT reimbursement. Some work is going to address these issues, but progress has been slow. To date, the TSG-SITE customs consultant has been working on a duty deferral scheme from the Palestinian perspective to resolve the drawback issue. In addition, VAT reimbursement has been addressed by PIEFZA in relation to Palestinian investors which should lead to a parallel solution on the Israeli side. The other issues remain to be resolved.

**Next Steps**

**Task 11 : Address greater attention to resolution of the issues of tax sparing, investment guarantees, and individual**

**taxation of Israelis working in the GIE.** As with the legal issues discussed above, these tax issues have the potential of deterring investment as the free zone and technology zone development proceeds. PIEFZA senior management needs to focus on these issues in the near-term, in order to resolve them before they pose a threat to future growth of the IE/FZ program.

## 5. Organizational Structure and Operations

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### 5.1 Overview

The effectiveness of PIEFZA's management and operational structure will be critical to the agency's long-term success. PIEFZA's current organizational structure is ill-defined, many positions remain unstaffed, and operational procedures are weak or non-existent.

This chapter will address the management and operational structure and requirements that PIEFZA will need to fulfill its mandate and responsibilities over the next three years. It sets forth a revised organizational structure; defines the responsibilities of each of the organizational units in that structure; identifies needed operating procedures and policies; and reviews the agency's physical office, equipment, and locational requirements. The subsequent chapter reviews PIEFZA's human resource needs and requirements.

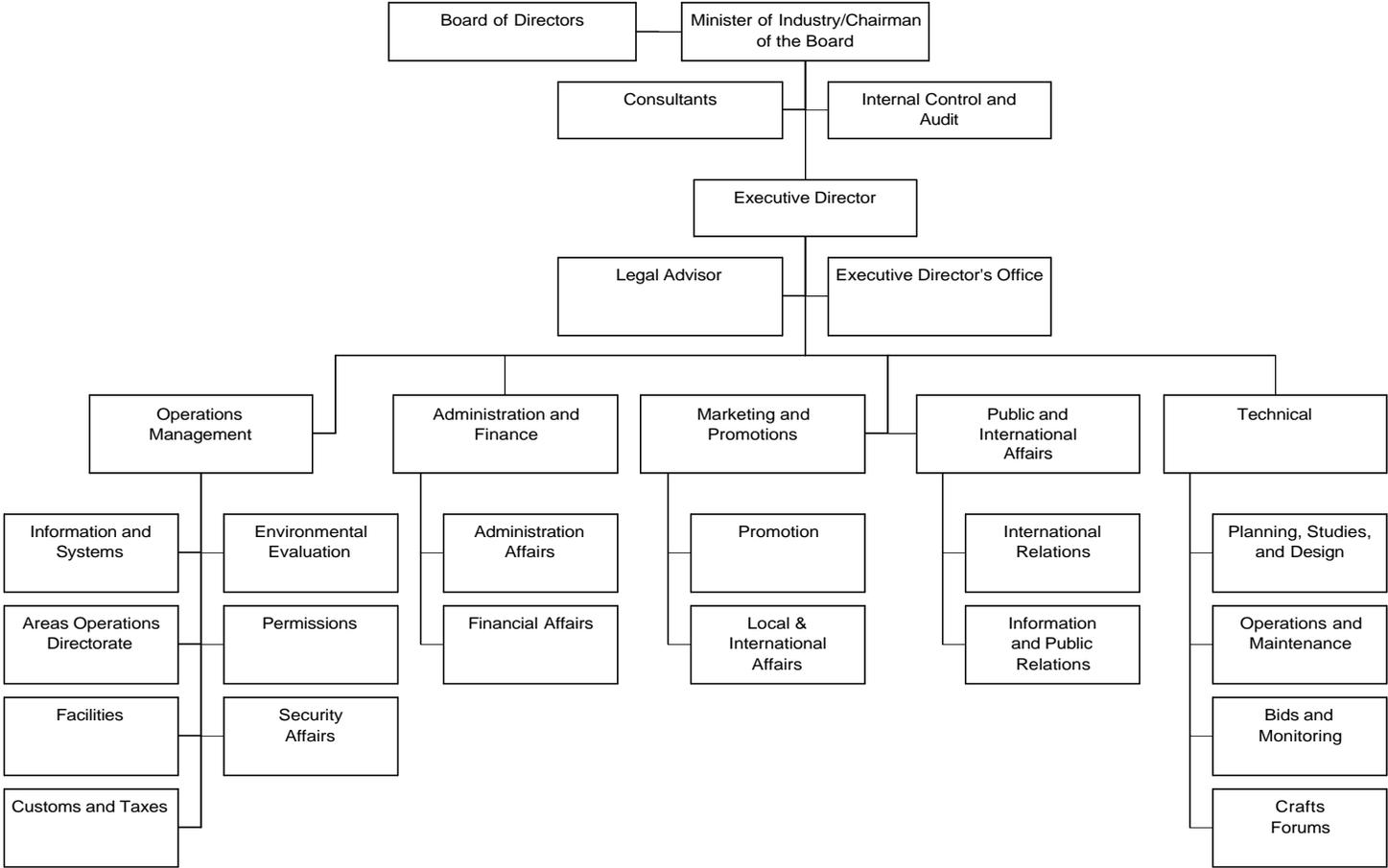
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### 5.2 Organizational Functions

PIEFZA is currently organized using the structure shown on Figure 5-1. PIEFZA operates under the aegis of the Ministry of Industry, and the Minister serves as the Chairman of the Board of Directors. The Director General of PIEFZA oversees five directorates: Operations Management, Administration and Finance, Marketing and Promotion, Public and International Relations, and Technical. Currently, these directorates are vacant. PIEFZA has proposed some modifications to this structure; chiefly, eliminating the Public and International Relations Directorate and placing these functions directly under the Director General.

The PIEFZA system of directorates (both current and proposed) is highly functional and generally conforms to international practice.

**Figure 5.1: Current PIEFZA Organization Chart**



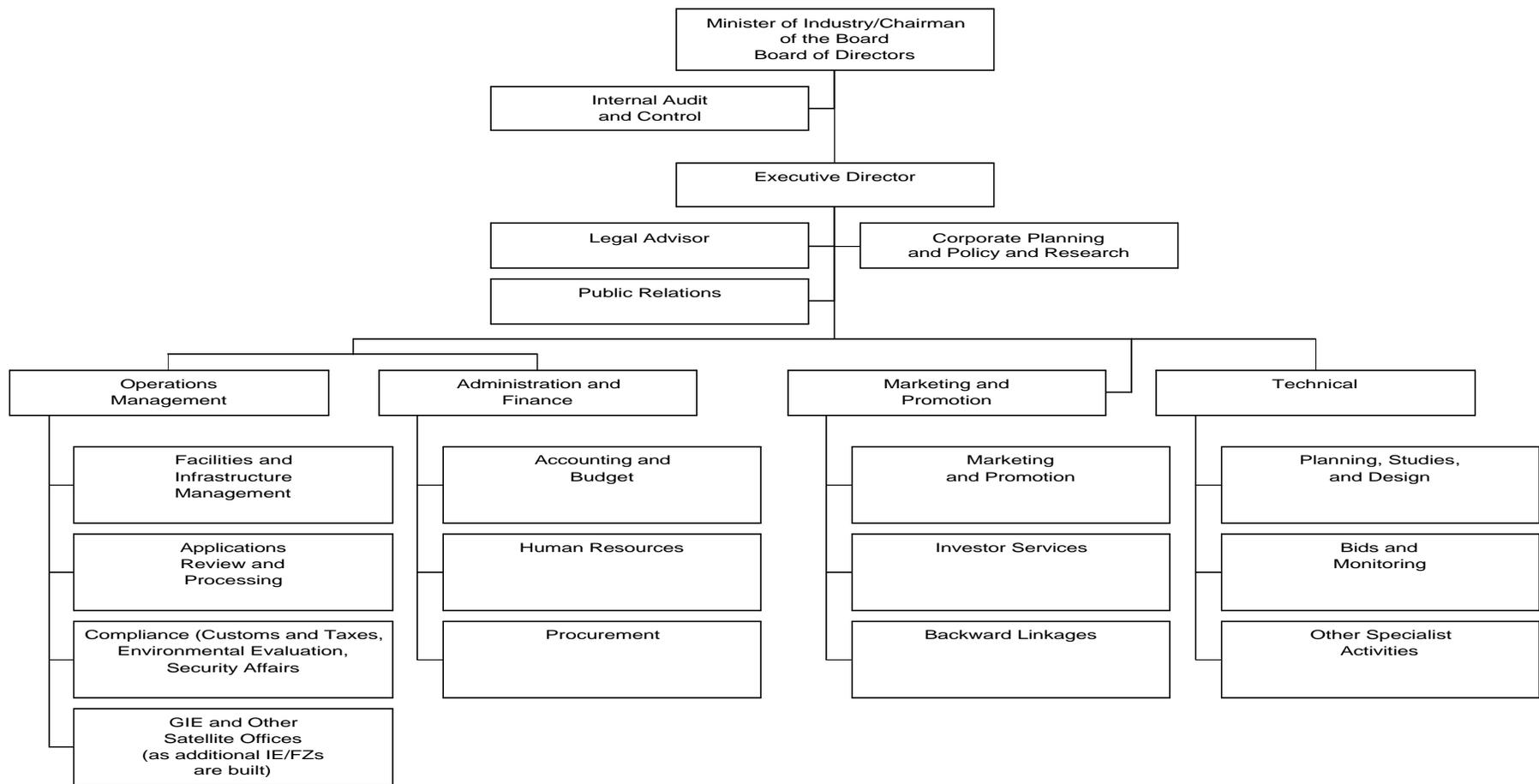
Nonetheless, some additional modifications would increase the functionality and ultimate performance of these directorates and units within the directorates. These modifications are shown in Figure 5-2.

As shown in this Figure, PIEFZA would retain the four directorates of Operations Management, Administration and Finance, Marketing and Promotion, and Technical Services. The key changes that have been made are:

- A Corporate Planning and Policy Research Unit, which will include statistical monitoring and MIS functions, is created under the Executive Directorate.
- A Human Resources Unit is created under the Administration and Finance Directorate.
- An Investor Services Unit is created under the Marketing and Promotion Directorate.
- Activities which include a compliance and monitoring function (customs, taxes, and security affairs) are grouped together into a Compliance Unit within the Operations and Management Directorate. (Applications Review and Processing is still included in this Directorate since this function requires many of the same skills as utilized in monitoring compliance.)
- Facilities Management and Operations and Maintenance are grouped together into the Facilities and Infrastructure Management Unit.
- PIEFZA satellite offices, to be established within each IE/FZ (discussed further below), are placed under the Operations and Management Directorate.

These modifications, while largely conforming to the current PIEFZA organizational design, have the added advantages of grouping together individual specialties to a greater degree, thereby allowing for maximum specialization of skill areas. In addition, direct supervision of the Units is easier because

**Figure 5.2: Proposed PIEFZA Organization Chart**



Directorate Managers have to be experts only in a narrow set of skills. Greater specialization fosters the professional identification of staff and a clear career path for growth.

The functions and responsibilities of each of these Directorates are briefly discussed in detail below.

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*Executive Directorate*

The Executive Directorate refers to those functions grouped in the office of the Director General of PIEFZA: the Legal Advisor, Public Relations, and Corporate Planning and Policy and Research.

Legal Advisor

The Legal Advisor will advise the PIEFZA Director General on all legal issues, including areas relating to the modification of the PIEFZA Law; legal aspects of regulatory and compliance issues; interpretation and enforcement of PA labor, environmental, and other laws, etc.

Public Relations

The Public Relations Unit is responsible for all activities related to generating greater knowledge about PIEFZA and the IE/FZ program. The current International Relations and Information and Public Relations functions will be merged into this Unit.

This function is placed directly under the Director General, rather than in the Marketing and Promotions Directorate, because these high profile activities will frequently require the direct involvement of the Director General. Key public relations activities should include paid advertisements; seminars/conferences; periodic press releases; visits by guest journalists; press conferences; and other special events. Given the overlap of these functions with PIEFZA's marketing and promotion activities, this Unit will need to work closely with the Marketing and Promotions Directorate

Corporate Planning  
And Policy and  
Research

As discussed in Chapter 2, PIEFZA needs to develop a policy and planning capacity that can identify needed improvements in the investment climate or in specific laws or regulations; work on an interactive basis with the relevant government organizations or agencies to achieve such reforms; and help to ensure that any such reforms are communicated to potential investors.

Carrying out this function requires substantive research and data collection on Palestine's competitor investment locations and on international investment trends. Accordingly, it is best carried out by full-time staff that are dedicated to this purpose. While the Director General may be able to handle these functions in the near-term, the Corporate Planning and Policy Research Unit should be established by Year 3. This transitional development will enable the Director General to increasingly focus on the day-to-day management of PIEFZA as the IE/FZ program grows.

When operational, this Unit will be responsible for the preparation of annual and periodic reports submitted by the Director General to the Board of Directors and any other body; assisting the Director General with strategic planning; compilation of the necessary data, statistics, and research on comparative conditions in Palestine's competitor locations; advising on needed changes to the Palestinian investment climate; and any other analytical or planning functions.

This Unit should include the MIS statistical monitoring and performance monitoring functions, as well as PIEFZA's statistical database and economic analysis capabilities. Finally, strategic development of policies to encourage backward linkages between zone firms and Palestinian small- and medium-sized enterprises (as discussed further in Chapter 7) will be the responsibility of this Unit.

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*Operations and Management Directorate*

This Directorate is responsible for a number of functional activities that are essential to the establishment, operation, and compliance of IE/FZs and IE/FZ firms. These include facilities and infrastructure management, applications review and processing, customs and environmental compliance, and the operation of satellite PIEFZA offices.

Facilities and Infrastructure Management

These activities include the physical maintenance of PIEFZA office facilities and vehicles; management and operation of any off-site infrastructure; and performance of any other facility-related and infrastructure responsibilities. These responsibilities are limited to PIEFZA and its satellite offices, and do not include the

	provision of infrastructure and other activities that are the responsibility of developers.
Applications Review and Processing	This Unit will receive, review, and process applications from zone firms, including forwarding them to MEnA for environmental review and permitting. The Investor Services Unit (in the Marketing and Promotion Directorate) may frequently liaise with this Unit to check on the status of investor's applications, but will have no involvement in the actual review and processing process.
Compliance	The Compliance Unit will be comprised of all compliance and regulatory activities in the areas of customs and taxes, environmental affairs, and security affairs. As such this Unit will have to develop and maintain cooperative relationships to facilitate liaison with counterpart organizations elsewhere in the PA. It should be noted that this Unit is responsible for monitoring investor compliance in these areas, not providing services. Accordingly, the current practice whereby PIEFZA is providing 22 security guards to the GIE needs to be reorganized.
Satellite Offices	PIEFZA will establish a satellite office in each IE/FZ as it is built to provide a point of contact for investors on each estate. This office should be staffed by one person and will perform the following: assist with compliance, receive (but not approve) applications and communications on behalf of PIEFZA; collect estate-specific statistical data as required; and facilitate marketing and promotion activities and coordinate these with developers. These offices will be provided by each developer and responsibility for their maintenance will rest with the developer.

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<i>Administration and Finance Directorate</i>	This Directorate is responsible for the general administration, financial management, and personnel operations of the agency. The activities of this Directorate are not related to the IE/FZ program per se, but are essential to the smooth daily operation of the agency as a corporate entity.
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Accounting and Finance	Accounting and finance consists of both the day-to-day and long-term financial operations of PIEFZA, including accounts receivables
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and payables; management of employee time sheets and salary payments; maintenance of accounting records and working with the agency's external auditor; preparation of an annual financial report for the Director General; and related functions.

Human Resources and Administration

PIEFZA currently lacks basic personnel and office procedures and policies (as discussed further below). A separate Human Resources and Administration Unit should be established that will be responsible for developing and implementing personnel and office procedures, staff training programs and policies, compensation-related matters, etc.

Procurement

This Unit is responsible for selecting and purchasing needed equipment and supplies, accepting and reviewing any bids for the sale of such equipment, etc. The Procurement Unit is separate from the Accounting and Budget function so that separate and independent authorization must be obtained before items can actually be purchased.

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*Marketing and Promotion Directorate*

The Marketing and Promotions Directorate will be a critical area of PIEFZA's development over the next three years. Although this Directorate is currently unstaffed, the IE/FZ program has been remarkably successful in attracting tenants over its first year. Nonetheless, the establishment of the Jenin, Rafah, Nablus, and Tarqumiya estates, plus the development of the KTDC, will expand the program considerably, and substantive marketing and promotion will need to occur to ensure that the inflow of firms is commensurate with the development of these new parks.

Development of this Directorate needs to be a first priority for PIEFZA. Not only does this Directorate need to be staffed, but a wide range of marketing and promotional activities will need to be implemented. (These are discussed further in Chapter 7.)

Promotion and Marketing

Image-building and investment-generating activities such as advertising; inward and outward missions; marketing campaigns; production of promotional materials will be the responsibility of this division. It will work with MIS personnel on the design and maintenance of a web site, and with the public relations staff

reporting to the Director General.

Investor Services

Investor Services will handle new IE/FZ-specific investment “leads” generated either through the efforts of the Marketing and Promotion Unit or referred by PIPA (once operational), developers, or other sources. Each new case should be handled by a single Account Executive who will be responsible for handling the case from beginning to end (i.e., when a positive decision is made to invest and an IE/FZ certificate is obtained, or when it becomes clear that a client will not proceed with an investment).

The Account Executive will also guide prospective investors through the approvals process. As needed, this Unit may liaise with the Applications Review and Processing Unit to check on the status of an investor’s application, but will have no role in the review or approval/rejection of that application. This Unit also will cultivate existing investors to encourage re-investment or expansion, and will assist investors with any problems that might lead them to scale down or close their operations.

Backward Linkages

This Unit is responsible for the implementation of programs and policies to encourage backward linkages between zone firms and Palestinian small- and medium-sized enterprises.

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*Technical Services  
Directorate*

The Technical Services Directorate holds responsibility for all technical issues relating to the design and development of new IEs/FZs, including preparation of technical studies and feasibility studies for IE/FZ development; preparation of designs for infrastructure services and overseeing infrastructure development; and determining technical specifications for buildings and structures within IEs/FZs and granting permits for such buildings and structures.

Planning, Studies, and  
Design

This Unit is in charge of all the planning, evaluations, and design work that needs to be completed before the establishment of an IE/FE, and ensuring that final projects comply with approved plans. This includes zone specifications; economic feasibility and environmental studies; identification of environmental, archeological or other sensitivities; land use considerations;

planning; and other related details.

Bids and Monitoring

Responsible for handling tenders and quotations for the provision of infrastructure services and execution of these tenders.

**Next Steps**

**Task 1; Revise the existing organizational structure and draft job descriptions to reflect this structure..** PIEFZA's organizational structure should be revised to reflect the more tightly focused organization discussed here, and new units should be established. In the new organizational structure, the Director General should report directly to the Board of Directors, as shown in Figure 5-2 and discussed in Chapter 4.

Job descriptions need to be drafted to reflect this new organizational structure. While PIEFZA has some job descriptions, these do not always conform to the current, much less the proposed, organizational chart; in addition, a number of descriptions lack defined responsibilities and needed skill qualifications. Descriptions will need to be drafted for newly created positions (e.g., Investor Services) or modified (for existing jobs), as necessary. Each job description should detail the position's regular and intermittent responsibilities; the senior position to whom the position reports; the employees for which the position is responsible for (if any); the nature of travel and types of contacts outside the agency; annual performance requirements; and minimum qualification requirements.

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**5.3 Development and Strengthening of Internal Operating Systems and Procedures**

Any institution needs formal and systematic operating procedures and systems that provide a rational structure for day-to-day activities; ensure that responsibilities and tasks are performed effectively; create accountabilities for outcomes; and enable performance measurement. PIEFZA currently lacks systematic procedures in many areas, including communications procedures, human resource policies, monitoring and evaluation procedures,

and the like. In the next three years, PIEFZA's internal operating systems and procedures must be developed and/or strengthened to enhance the agency's institutional effectiveness.

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*Internal Operating and Communications Procedures*

PIEFZA currently lacks effective internal communication procedures and practices among its staff. Basic work procedures are neither well documented nor transparent. There is little delegation of authority to lower levels, jobs within the institution are not clearly defined, and there is no system for performance measurement with reference to specific objectives.

Given PIEFZA's nascency, these weaknesses in internal operating and communications procedures are not surprising. Nonetheless, they must be addressed in order to strengthen the organization's effectiveness, raise employee morale, eliminate confusion over respective roles, and ensure an efficient allocation of responsibilities, and measure whether or not the agency is achieving its key objectives. Over the next three years, PIEFZA must put into place the basic business concepts essential to the agency's success. These will include:

- defined systems of internal communications, supported by a well-documented procedures manual;
- procedures for decision-making and the delegation of authority;
- procedures for regular staff and management reporting; and,
- clearly defined institutional performance objectives and a systematic means for measuring whether these objectives are met.

**Next Steps**

To achieve these objectives, the following tasks need to be performed:

**Task 2: Formalize internal communication channels and reporting relationships.** Reporting relationships for each position need to be clarified and formalized. Formal internal communication systems need to be established in order to communicate policies and decisions of management in accordance with the objectives of the three-year corporate plan.

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These channels should also incorporate mechanisms for staff feedback, and authority should be delegated to lower levels to decentralize decision making.

**Task 3: Introduce a Management by Objectives (MBO)**

**System:** MBO, or similar systems, can be used to increase organizational effectiveness by setting forth clear objectives for every manager that support the those of the manager on the level above them. Introduction of a MBO system in Year 1 would be particularly useful in PIEFZA because it would complement and organize the changes that will be occurring in the agency.

Establishing an MBO system entails the following:

- *Formulating clear and concise statements of objectives:* After long- and medium-term organization objectives are set by top management for PIEFZA and their own work, they are formulated for persons on lower levels in descending order on the chain of command.
- *Developing realistic plans for their attainment.* Each manager completes a “management guide” setting his objectives and the means for attaining those objectives. This allows the manager and his superior to clearly see the objectives and the expected results, and to measure the manager’s performance accordingly.
- *Systematic monitoring and performance measurement:* Using the management guide, each manager’s performance is evaluated on an annual or bi-annual basis.

**Task 4: Formalize internal office rules and procedures and**

**develop an Office Procedures Manual:** Internal rules and procedures are needed to ensure the effective management of basic operations. These rules should cover basic areas such as travel expenditures, entertainment of clients, absences from the office, use of meeting rooms, etc. It is important that these rules not be too numerous or complex or they may be ignored by staff members or divert employees from more important tasks. These rules and procedures should be published in an Office Procedures

Manual which should be distributed to all staff.

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*MIS and Information  
Technology Systems*

On-going technical assistance has been provided to PIEFZA to develop a management information system and investor tracking system (MIS/ITS). When completed, the MIS system will enable PIEFZA to track and monitor a number of important criteria, including:

- pending investor applications;
- the amount of time needed to issue approvals by the approving agencies;
- details of approved investments, classified by type of investment, country of origin, investment amount, number of persons employed, technical characteristics (e.g., amount of under roof and open area, export destinations, number of shifts, water and electricity use, etc), financial characteristics (e.g., size of fixed capital investment, sources of financing, quantity and value of output); and, the number of approved investments per month.

This system can be used by PIEFZA to ensure compliance with deadlines and application requirements and monitor IE/FZ growth patterns. It will also generate statistical information on program performance that can be used in the preparation of quarterly and annual reports; the generation of press releases and other public relations activities; and the like.

**Next Steps**

While the MIS system is sufficient for PIEFZA’s current needs, it will have to expanded over the next three years as the number of zones and IE/FZ firms grows. To enable PIEFZA to keep up with this growth, the following steps will be necessary:

**Task 5: Establish wide area network (WAN) links with new offices as they are opened.** In the next three years, four additional IEs are likely to be developed (Jenin and Tarqumiya in 2001; Rafah and Nablus in 2002), as well as the KTDC in 2001. PIEFZA plans to open a satellite office in each of these IEs. Each of these offices will have to be electronically connected with the PIEFZA main office and other satellite offices in the territory, as

well as with any other PA agencies and offices deemed necessary (e.g., PIPA, once operational).

**Task 6: Expand the MIS system to include an Investor Tracking System** The current MIS system is based on the application form submitted by an investor who has already made the decision to invest. As PIEFZA's promotional focus moves from image building to investment generation, the MIS system should be modified to track the status of investment generation initiatives and leads. This information should include key contact information on the company; type and sector of investment; which Account Executive is responsible for that investor; nature of the initial contact (phone, email, etc.); status of the investment; etc. It should also include a built-in capability of "prompts" to notify Investment Officers that a certain action should be taken.

This sales lead tracking system will enable the agency to identify high potential sales leads, pursue those leads through a targeted marketing campaign, and monitor PIEFZA's "conversion ratio" in translating potential leads into expressions of interest, site visits, and investment applications. Development of this system should be coordinated with the Marketing and Promotions Directorate.

**Task 7: Add permitting and licensing functions to the MIS tracking data base.** As PIEFZA expands its facilitation role into areas beyond registration and enterprise certification, new permitting and licensing functions will have to be added to the tracking database. The more complex PIEFZA's network of interdepartmental facilitation grows, the greater the need for an efficient system for managing and monitoring the activities of diverse individuals and agencies involved in this process will become. This will not entail a large volume of additional raw data collection, but will focus instead on PIEFZA's role in shepherding the applicant through the IE/FZ-specific permitting procedures and building regulations as they are developed jointly with other PA departments and ministries.

**Task 8 : Expand the MIS system to handle other database and statistical functions.** As the Corporate Planning and Policy

and Research Unit becomes operational, it will require statistical database and economic analysis capabilities. Similarly, the Marketing and Investment Promotions Directorate will need extensive databases to support their marketing activities.

These functions will need to be incorporated into the current MIS design. Databases should be created that include information such as local economic profiles; details of incentives; FDI statistics; sectoral studies; potential joint venture partners; and profiles of high potential sectors (as identified through investor targeting activities). Access should also be provided to key international trade and investment databases.

**Task 9: Train PIEFZA staff in the use of the revised MIS system.** Once the above additions are made to the MIS system, PIEFZA staff will have to be trained in its use and maintenance, and appropriate user manuals will have to be developed.

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*Performance Measurement*

PIEFZA needs to develop a number of qualitative and quantitative performance measurements to evaluate how well the institution is responding to its obligations and to assess the cost effectiveness of its activities. Monitoring and evaluation systems are important not only to quantitatively measure the economic impact of the agency's activities, but also to qualitatively assess the agency's performance.

A number of variables can be used to measure performance, including:

- the number of inquiries from potential investors and the time required to respond to each one;
- the time required to evaluate applications from investors;
- the number of companies established and the number of jobs created;
- rate of growth in IE/FZ investment, as measured by aggregate capital costs or total square feet of under-roof space;
- sectoral-specific variables such as the percentage in export growth by a specific industry;

- periodic follow-up surveys to measure investor satisfaction with the services provided by PIEFZA;
- participation in seminars and workshops (both local and international) to promote the Palestinian IE/FZ program.

Performance measurement needs to be established as a regular activity of the institution. Data collection and recording mechanisms need to be developed and incorporated into the existing MIS system and databases. In addition, "feedback loops" need to be designed so that these data are not just collected but are also used as an effective management tool; for example:

- any operational problems identified in investor surveys need to be relayed to PIEFZA's Investor Servicing Unit;
- problems encountered by investors that are related to the policy environment need to be forwarded to the attention of the PIEFZA Corporate Planning and Policy and Research Unit so they can be brought to the attention of the appropriate government authorities;
- performance shortfalls by PIEFZA Directorates need to be brought to the attention of that Directorate and the Director General; and,
- performance shortfalls also need to be linked to personnel policies so that PIEFZA staff can be held responsible for their respective and overall performance.

Performance measurement has three important advantages: it provides an effective internal management tool to evaluate the activities of individual directorates and personnel; it compiles data on program performance that can be a valuable promotion and public relations tool; and it will provide PIEFZA with concrete measurements to demonstrate what it has achieved to donors and the PA and to justify any future external funding.

**Next Steps**

**Task 10: Incorporate tracking measures into all PIEFZA activities:** While monitoring and evaluation is important for quantitatively measuring the economic impact of the agency's activities, it is also an important management tool. All aspects of the agency's activities -- including the annual business plan, annual marketing strategies, and the operational plans for

individual departments should incorporate specific interim objectives and a timetable for achieving those objectives. Tracking should become a routine function that is incorporated into the day-to-day activities of the agency's staff. Employees should be expected to compile relevant data on a weekly, monthly, or quarterly basis, as appropriate.

**Task 11: Develop external performance-measuring targets for IE, FZ, and Technology Park development:** The MIS system enables PIEFZA to track the volume and type of incoming investment, the number of jobs created, the amount of under-roof space occupied, the volume and destination of exports, etc. This type of information, while useful for promotional purposes, is meaningless in the absence of quantitative performance targets as a measure of PIEFZA performance. Realistic, yet demanding, annual targets need to be set as a basis for assessing PIEFZA's annual performance in attracting investment. At a minimum, performance-measuring targets should be established for the following:

- Number of jobs created;
- Dollar value of investment attracted to the IEs/FZs;
- Dollar value of exports;
- Total square meters of constructed under-roof space;
- Total square meters of occupied under-roof space; and,
- Total production of IE firms, FZ firms, and technology park firms.

**Task 12: Develop internal performance-measuring benchmarks:** PIEFZA also needs a set of quantitative benchmarks to measure its internal effectiveness. These can be used to measure the cost effectiveness of agency activities, as well as to assess the performance of each Directorate as well as the performance of individual staff members. These benchmarks should include such areas as: processing time for investment applications; number of staff trained in a given period; number of inquiries from potential investors and the time to process each one; number of outward promotion missions; etc.

**Task 13: Assess PIEFZA's performance in implementing its**

**Corporate Plan.** At the end of Year 2, a follow-up strategic planning exercise should be conducted to evaluate PIEFZA's progress vis-à-vis the objectives of its three-year Corporate Plan. This exercise should assess the growth and development of the IE/FZ program and its overall competitiveness; assess the implementation of the Corporate Plan; identify any organizational or other shortfalls or weaknesses that need to be addressed; and recommend any needed modifications of the activities and assistance planned during Year 3.

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*Application Approval  
Procedures*

One of PIEFZA's most significant achievements in its first year has been the development of a "one-stop" application review and approval process that provides all approvals and permits on a fast-track basis. In particular, the procedures for issuing environmental permits has been much improved.

While the current practice is sufficient for the small volumes of applications that are currently received (approximately 25-35 per year), they are less suited for handling the larger volume that will be received as the program expands. As the number of IE/FZs and the volume of applications grow over the next three years, the approval and permitting process will probably need to be made more automatic so that it does not place a significant strain on PIEFZA staff and resources.

In a related area, the current process for reviewing and approving developer applications is essentially ad hoc and lacks written guidelines, with the exception of the stipulations in the law for handling applications. Developer applications are reviewed by a team of PIEFZA staff, including environmental, engineering and other specialists. Under the Law, an application must be submitted by the PIEFZA Director General to the Board of Directors within three weeks of its receipt; the Board in turn must submit it to the Council of Ministers for approval within 60 days of receipt. The Council then has one month to review the Board's recommendation and issue a decision.

To date, only one IE has been established (GIE) and the lack of formalized guidelines has not posed a problem. Nonetheless, brief

written guidelines should be developed, as they have been for potential IE/FZ firms, to avoid future problems and to enhance the professional image of the IE/FZ program.

**Next Steps**

**Task 14: Monitor the application approvals process to ensure its continued efficiency.** Few countries worldwide have established one-stop shops, and PIEFZA's accomplishments in this area give the Palestinian IE/FZ program an competitive advantage. It will be important to regularly monitor the amount of time needed to process applications and environmental permits in order to ensure that this competitive advantage is not eroded.

The time needed to issue approvals is collected as part of the MIS system. If these data show that approvals times are lengthening, PIEFZA should introduce greater automaticity to the approvals process through such measures as allowing the electronic filing of investment applications, using a short negative list to enable automatic approvals, and further streamlining of environmental clearance procedures.

Expanding the automaticity of the process – rather than the number of employees handling applications – is the preferable way to deal with any slow down in the issuance of investment approvals. Not only would greater automaticity be consistent with international best practice, but it would free up agency resources to focus on investment promotion and facilitation.

**Task 15: Formalize the developer application process.** As with the investment approval and environmental permitting processes, the current lack of formalized rules for approving developer applications does not currently pose a significant problem. Nonetheless, this process should be formalized in order to improve its transparency, eliminate the possibility of future misunderstandings or conflicts of interest, and enhance the program's image. These guidelines should also spell out in detail developers' responsibilities, as discussed in Chapter 4.

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**5.4 Integration of**

One key weakness in PIEFZA's current organizational structure

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**PIEFZA Offices**

and operations has been the imbalance and poor integration of the organization's Gaza and Ramallah offices. These offices have been set up in parallel fashion in order to serve both areas. Not only do such "mirror" organizations spread the agency's limited resources, but such practices can lead to a tendency to hire more staff than is necessary for two fully functioning offices. In addition, effective operation of the two offices has been worsened by the poor communication and integration between the two offices.

In light of the anticipated growth of the IE/FZ program within the next three years, there will be little justification for separate area offices. What PIEFZA will need will be a single office with centralized operations and management, supported by satellite offices located in each IE/FZ as it is established.

These headquarters can be in either Ramallah or Gaza. Ramallah is the preferable location because it is accessible and easy for investors to enter. If Gaza is selected as the site, this central office should be independent, and should not be placed in the GIE, as PIEFZA is currently planning. There is a substantial risk that once other IEs/FZs become operational, having a central office in the GIE will arouse resentment among other developers that PIEFZA is showing favoritism towards the GIE and steering investors to the GIE at the expense of other estates.

**Next Steps**

**Task 16: Determine the ideal location of a centralized office and obtain and establish office facilities.** As soon as possible, PIEFZA must select the location for its headquarters office, either in Ramallah or Gaza. Once the location is chosen, suitable professional office space needs to be identified and leased. This office will need to be larger than the current facilities to allow for a growth in total staff and should have a stand-by generator to prevent work interruptions. It should also have an attractive reception area for greeting investors and suitable meeting rooms. The sooner PIEFZA's operations become centralized in a single office, the sooner the agency will be able to focus on institutional strengthening and marketing and promotion, which should be its main tasks in the upcoming year.

**Task 17: Establish satellite offices in each IE/FZ as they**

**become operational.** These offices should be one-person offices, with space and utilities provided for free by each developer. Each office will be electronically linked with the central PIEFZA office, and the office will serve as PIEFZA's point of contact and communication with investors in each estate.

Current development plans for additional IEs and technology parks suggest that satellite offices will have to be added according to the following schedule:

*Year 1 (2000):* GIE

*Year 2 (2001):* Tarqumiya, Jenin, and Tulkarem;

*Year 3 (2002):* Nablus, Rafah.

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## **5.5 Office and Equipment Requirements**

PIEFZA is hampered in its operations by its current cramped and inadequate office space and support facilities. Many of the basic business tools are missing or inadequate, including;

- A lack of computers and information technology equipment: There are only 6 computers and 2 printers in the Gaza office and 2 computers and 1 printer in the Ramallah office.
- A lack of adequate transportation and communications facilities: There is only one four-wheel drive vehicle made available by the MOI. Adequate data communications networks are also lacking
- Inadequate office facilities: PIEFZA's office in Gaza lacks a stand-by generator and other facilities, and the staff is subject to work interruptions due to frequent brownouts. The Ramallah office, which is integrated with the MOI, has insufficient space and cramped working facilities.

## **Next Steps**

These factors not only inhibit the agency's future performance but they also undermine staff morale. To offset these weaknesses, the following measures need to be implemented over the next 3 years (these costs are reflected in the financial plan in Chapter 10):

**Task 18: Purchase additional vehicles.** In some locations, the poor state of the roads may justify 4-wheel drive vehicles. Assuming that one vehicle is purchased per each satellite IE/FZ office, and two vehicles for the central office, 8 vehicles would be needed by the end of Year 3.

According to the current development schedule for new IEs and technology parks, vehicles would have to be acquired according to the following schedule:

- Year 1 (2000):* 3 vehicles (2 for the central PIEFZA office and 1 for the GIE satellite office);
- Year 2 (2001):* 3 vehicles (for satellite offices at Tarqumiya, Jenin, and Tulkarem);
- Year 3 (2002):* 2 vehicles (for satellite offices at Nablus and Rafah).

**Task 19: Purchase additional computers and information technology equipment.** In order to expand the use of computers throughout PIEFZA, a substantial investment in computers and related equipment must be made. Discussions with PIEFZA have indicated that the following may required over the next three years:

- 48 personal computers
- 8 servers
- 7 video conferencing kits
- 1 access server
- 1 multiplexer
- 7 modems
- 8 UPS (1 for each server)
- 59 UPS (for each personal computer)
- 13 laser printers ( 6 pp. per minute capacity)
- 7 laser printers (12 pp. per minute capacity)
- 8 digital data storage
- 7 color printers
- 7 data switches network
- 7 network cabling
- 6 routers

**Task 20: Purchase a standby generator.** If PIEFZA's new office facilities are in Gaza and do not include a standby generator, one should be purchased. Given the frequency of brownouts, this purchase would have an important impact on PIEFZA's daily efficiency.

**Task 21: Furnish new satellite offices in each IE/FZ as it becomes operational.** In addition to vehicles and IT equipment, each satellite office will also require office furniture and supplies.

## 6. Human Resource Development Strategy

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### 6.1 Staffing and Compensation

With only 22 staff formally on the payroll, PIEFZA is one of the smallest IE/FZ regulatory bodies in the world. While corporate regulatory bodies tend to be leaner than their public sector counterparts, it is clear that PIEFZA's staff is too small to effectively meet its organizational mandates, particularly as the number of IE/FZs grow. Due to its limited operational support, a number of job openings remain unfilled, and PIEFZA has not been able to adequately implement its current organizational chart. Nonetheless, PIEFZA is providing 22 security guards to the GIE.

This shortfall is particularly evident at the Directorate Level, where all five Director positions are vacant; in addition, the Marketing and Promotions Directorate has no employees. Similarly, the Technical Directorate remains understaffed, even after the hiring of two Metcalf & Eddy employees. The unfilled openings will have to be filled, and additional staff hired, to enable PIEFZA to fulfill its short-term and medium-term responsibilities.

All PIEFZA staff are employees of the MOI and are accordingly paid at governmental salary and benefits levels that are lower than equivalent private sector salaries. These lower compensation levels can represent a substantial barrier to the recruitment and retention of more qualified, experienced, and private sector-oriented staff. In the longer-run, lower salary levels can also lead to a "brain drain" of the agency's most productive employees to the private sector.

The organization's funding uncertainties and constraints to date have prevented the Board from raising remuneration levels, although the PIEFZA law allows for the payment of competitive salaries. If sufficient funding becomes available, the organization's staff should formally become PIEFZA employees, enabling salary levels to be raised to levels that are more competitive with the private sector. If PIEFZA pays private sector equivalent salaries,

however, it also needs the hiring/firing flexibility of a private sector entity and should no longer be bound by civil service employment requirements.

**Next Steps**

To overcome these weaknesses, the following steps should be implemented:

**Task 1 : Finalize staffing needs:** To fully carry out its responsibilities, PIEFZA estimates that its total professional staff needs to increase by an additional 10 employees, to a total of 32. The chart below shows both current staffing and anticipated staffing, for each functional area:

**Table 6-1: PIEFZA’s Current and Anticipated Staffing**

	Current Number	Needed Number (by Year 3):	Positions to Consist Of (by Year 3):
Executive Directorate	3	6, plus 2 assistants	Director General, Corporate Planning/Policy Officer, Public Relations Officers (2), Legal Advisor, MIS Expert
Operations Management Directorate	10	15	Director of Operations Management, Facilities and Infrastructure Specialist (3), Compliance – Customs and Taxes, Compliance – Environment, Compliance – Security, Area Operations Director, Satellite Operations Officers (6), Applications Processing (2)
Administration and Finance Directorate	3	4	Director of Administration and Finance, Accounting & Budget, Human Resources, Procurement
Marketing and Promotions Directorate	0	4, plus 1 Marketing Research Assistant and 1 Administrative Assistant	Marketing and Promotions Director, Promotions Officer, Investor Services (2)
Technical Services Directorate	4	4	Technical Services Director, Planning & Studies, Bids & Monitoring, Backward Linkages & Crafts
<b>TOTAL</b>	22	35	

In addition, PIEFZA's staff will need be supplemented by the addition of 2 drivers, 2 secretaries, and an office assistant in Years 2 and 3. These staffing levels are reflected in the budget included in Chapter 10.

**Task 2: Recruit new staff for investment promotion and logistics:** To facilitate the development of the investment/promotion/investor services function, staff should be assigned or recruited immediately. In addition, some new staff members may also have to be recruited once the job descriptions are formalized to replace current staff who may no longer be qualified for the newly defined positions. Particular focus should be paid to hiring individuals with private sector experience for those positions involved in advertising, publicity and public relations, and handling new investors, because these skills are not typically found in government bureaucracies.

**Task 3: Raise salaries to levels comparable to other donor-funded organizations and projects:** If funding permits, salary levels, particularly for the technical staff, need to be increased to levels commensurate with comparable donor-funded organizations in WBG.<sup>1</sup> Comparable salaries would appear to be \$2,000 to \$2,500 per month for departmental directors and \$1,500 per month for technical/professional staff. A performance-based bonus system also needs to be devised. A necessary corollary to increased salary is the introduction of private sector hiring/firing practices. The staff compensation package should be reviewed and upgraded once the job descriptions and workload assignments are finalized.

**Task 4: Eliminate the provision of PIEFZA security guards to IE/FZs.** The provision of security guards should be a private sector function, as is in other IEs/FZs worldwide, and PIEFZA should immediately cease this practice.

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<sup>1</sup> As reviewed in Basil Abdel Rahman's report, "Comparative Study of Donor Funded Organizations/Projects Working in the West Bank and Gaza Strip," The Services Group, October 1999.

**6.2 Skill Needs and Training**

The current staff, while talented, seem to suffer from a number of major skill gaps in the following areas:

- marketing and investment promotion;
- strategic and corporate planning;
- policy development; and,
- customs and trade facilitation.

The staff throughout PIEFZA is also characterized by a general absence of computer skills and facility.

The Administration and Finance Directorate also has a number of weaknesses which compromise PIEFZA's financial planning and operations. These include weak project finance skills, particularly with regard to analyzing developers' financial projections and capital flows, and a lack of automated accounting functions.

The need for the development of specialized skills will become increasingly important as the organization enters into new areas such as investment promotion and policy development. Similarly, as PIEFZA becomes established as an independent and more autonomous agency, it will need to strengthen its budgeting capabilities.

**Next Steps**

**Task 7: Develop new staff training programs:** Once the organizational structure and job positions are complete, a comprehensive skills development program should be prepared to upgrade staff capabilities in key areas. This should take the form of on-site courses, to complement the off-site training program already being undertaken through the TSG-SITE project. These training programs should also be institutionalized, by training specified staff members within PIEFZA to serve as trainers for future employees.

Key training areas to focus on include the use of computers, which would enable PIEFZA's efficiency to be improved through the computerization of many routine functions; financial management and project finance; and MIS training. (This training is in addition to the training provided to the Marketing and Promotions Directorate, as discussed in the following chapter.)

**Task 8: Establish and continue specifically targeted training visits to best practice IEs/FZs.** These visits will give key technical personnel hands-on exposure to the procedures and methods used for marketing and investment promotion, one-stop shop approvals, movement of goods and people, and IE/FZ management and development techniques.

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**6.3 Human Resource Policies**

The quality of PIEFZA's staff -- and the effectiveness with which that staff is managed, trained, and motivated -- will be critical to PIEFZA's long-term success. PIEFZA's establishment along a autonomous corporate model, rather than as a government unit, gives the agency the capability to manage, compensate, and hire/fire its staff using business, rather than government, standards of performance.

To date, however, PIEFZA lacks the basic internal staffing standards and definitions that are essential for the effective deployment and management of personnel. As noted in the previous chapter, job descriptions need to be created for new positions and strengthened for existing positions. There also needs to be an assessment of skill needs, and a mapping of staff capabilities. Written personnel policies will need to be developed that clearly identify hiring/firing, compensation, and other human resource procedures.

**Task 9: Strengthen the human resources function within PIEFZA:** As discussed in the previous chapter, PIEFZA needs to have a separate human resources unit within the Administration and Finance Director. These capabilities of this Unit will need to be upgraded to ensure that staff recruitment, performance

evaluation and compensation, personnel policies, training, and related issues are handled in a transparent and fair manner that maximizes employee effectiveness.

**Task 10: Assess suitability of current staff for the revised job descriptions.** As discussed in the previous chapter, job descriptions should be written or modified, as necessary, to reflect the new organizational structure. Once this task is completed, an assessment of existing staff should be performed to determine their suitability for the new positions. As needed, staff members should be shifted to new positions suited to their qualifications, or returned to the civil service. The performance of all staff should be measured annually or bi-annually in terms of their requirements stated in their job description. In addition, the current allocation of workload among the staff and authority delegated to individual staff members needs to be adjusted accordingly.

**Task 11: Design written personnel policies:** A employee procedures manual should be developed which defines all personnel policies in a clear and unambiguous fashion. It should address such issues as hiring/firing policies; sick, holiday and annual leave; salary, compensation, and bonus policies; rules regarding employment of family members; etc.

**Task 12: Develop sound recruitment policies:** While training programs can be used to improve staff capabilities in the short-run, in the medium- to long-run PIEFZA will need to build up a core staff with solid professional skills. To achieve this objective, the agency will have to develop sound recruitment policies that incorporate the following principles: senior management should be comprised of a mix of executives with public and private sector backgrounds; all senior vacancies should be advertised even if there is an acceptable in-house candidate; written job descriptions should be used; etc.

**Task 13: Develop a program to encourage staff self-training and employment.** In the longer-run, PIEFZA needs to have in place a personnel training program that enables employees to continually upgrade their skills; for example, through specialized

technical courses, in language improvement, etc. Organizations that invest in their staff through training are more likely to retain a higher proportion of motivated and committed staff than are those that only reward personnel with salary increases. Personnel policies will need to be developed which delineate PIEFZA policies governing sabbaticals, any tuition reimbursement, the use of paid or unpaid leave to study for examinations, etc. to encourage such self-improvement.

## **PART III: IE/FZ IMPLEMENTATION STRATEGY**

## 7. Implementation of the Marketing Plan

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### 7.1 Investment Promotion Strategy

PIEFZA’s marketing and promotion to date has consisted of the development of a number of image-building tools designed to increase awareness of the IE/FZ program. These have been developed under the current SITE project and include printed materials (brochures, investors guide, business cards, posters); video; a multimedia CD-ROM; and development of a World Wide Web site. The challenge of the next three years is to implement a comprehensive and pro-active image-building and investment generation campaign.

The investment promotion strategy that follows is based upon the findings of the Investor Targeting Strategy completed in November 1999. The key elements of this plan are summarized here for marketing and promotion will comprise a significant element of PIEFZA’s activities over the next three years.

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### *Promotional Objectives and Focus*

As identified in the ITS study, PIEFZA’s marketing and promotion activities over the next three years should focus on a select number of core industry sectors and target markets.<sup>1</sup> These are summarized in Table 7.1.

As documented in the ITS, these targets represent the most promising opportunities for investment in the short-term, based on the attributes of the Palestinian industrial estates, competitive industry trends, and the key policy objectives identified by PIEFZA for the identification of industries for promotion.

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<sup>1</sup> Greater detail on the rationale for this plan and the reasons for targeting each sector can be found in “Investor Targeting Strategy for Industrial Estates in the West Bank and Gaza,” TSG-SITE Project, November 1999.

**Table 7.1: Summary Matrix of Targets**

Industry Sector	Target Activities	Target Markets
Apparel	High-end apparel in the following categories: <ul style="list-style-type: none"> <li>▪ Men's or boys' trousers of woven textile fabrics;</li> <li>▪ Men's or boy's shirts of woven textile fabrics;</li> <li>▪ Women's or girls' trousers of woven textile fabrics;</li> <li>▪ Women's or girls' blouses of knitted or crocheted textile fabrics;</li> <li>▪ Women's or girls' lingerie, brassieres, panties, etc. of woven, knitted or crocheted textile fabrics; and</li> <li>▪ Sweaters, knitted or crocheted.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Israel, UAE</li> <li>▪ Italy, France, UK</li> <li>▪ Hong Kong, Taiwan</li> <li>▪ Palestinian Disaspora</li> </ul>
Consumer Electronics and Electrical Appliances	<ul style="list-style-type: none"> <li>▪ White goods (clothes washers and dryers, refrigerators, dishwashers),</li> <li>▪ Small kitchen appliances,</li> <li>▪ Televisions and radio receivers,</li> <li>▪ Personal care appliances (shavers, hairdryers),</li> <li>▪ Telephone sets</li> <li>▪ Small office appliances (adding machines).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Denmark, Italy</li> <li>▪ U.S.</li> <li>▪ Japan, Korea</li> <li>▪ Israel</li> <li>▪ Palestinian Diaspora</li> </ul>
Call Centers	<ul style="list-style-type: none"> <li>▪ Inbound telemarketing (customer service)</li> <li>▪ Technical help desk services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Israel (incl. Israel-based multinationals)</li> <li>▪ U.S.</li> <li>▪ Palestinian Diaspora</li> </ul>
Data Conversion	<ul style="list-style-type: none"> <li>▪ Data entry</li> <li>▪ Vector conversion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Israel (incl. Israel-based multinationals)</li> <li>▪ Palestinian Diaspora</li> </ul>
Software Development	<ul style="list-style-type: none"> <li>▪ Offshore programming of packaged and customized software</li> <li>▪ Arabization/conversion of packaged software</li> </ul>	<ul style="list-style-type: none"> <li>▪ Israel (incl. Israel-based multinationals)</li> <li>▪ U.S.</li> <li>▪ UK, Germany</li> <li>▪ Palestinian Diaspora</li> </ul>
Stone & Marble	<ul style="list-style-type: none"> <li>▪ Cutting and finishing of high-quality dimension stones</li> </ul>	<ul style="list-style-type: none"> <li>▪ Italy, Spain</li> </ul>

*Marketing Program*

The ITS report set forth an extensive two-year marketing program. In light of the fact that the Marketing and Promotions Directorate is

not yet operational, this marketing program has been modified to extend for a three-year period, with the bulk of activities occurring in Years 2 and 3. By extending this program for a third year, PIEFZA will be able to focus in Year 1 on building PIEFZA's investment promotion capability and hiring and training the staff needed to carry out the program (discussed further below).

This promotion plan has three major components. All three of these components will be pursued simultaneously.

**General Image-Building Campaign:** This campaign should focus on replacing the negative image of WBG in the investor's mind with a positive one. It should also aim to capture the attention of the investors in the targeted sectors and the Diaspora.

This campaign will rely on three techniques: image-building advertising; public relations initiatives such as press relations, direct mailings, and overseas seminars; and networking with institutions and groups that serve as information sources for investors through the use of direct mailings and inward promotional missions.

**Targeted Initiatives:** This component focuses on marketing the targeted industry sectors to the targeted markets.

**Diaspora Initiative:** This component aims to reach out to the Palestinians living abroad to identify potential investors for the targeted sectors and keep them informed about the investment environment, opportunities, and advantages in the industrial estates in WBG.

The PIEZA investment promotion budget is included in the three-year Financial Plan in Chapter 10.

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**7.2 Establishing the Marketing and**

One of the largest challenges facing PIEFZA in the next three years will be to rapidly establish and make operational the

**Promotions  
Directorate**

Marketing and Promotions Directorate. As discussed in Chapter 5, PIEFZA’s current organization structure for marketing and promotion should be revised to include an Investor Services Unit in addition to the Marketing and Promotions Unit.

These Units will perform the following:

*Marketing and Promotion* will be responsible for those image-building and investment-generating activities needed to attract investors to actively consider the WBG IE/FZ program as an investment site.

The *Investor Services Unit* will undertake all the functions needed to guide a prospective investor through the approval process. It will also be responsible for investor aftercare, assisting investors as needed with problems encountered after they begin operations and encouraging them to reinvest or expand their operations.

In order for PIEFZA to successfully undertake the marketing and promotional activity needed to fill all the IE/FZ space that will be developed in the next three years, a large number of activities must be undertaken in a very short amount of time. Currently, all positions in the Marketing and Promotions Directorate are vacant. PIEFZA not only has to staff these positions, but must also identify and perform needed additional training to strengthen the capabilities of these staff. In addition, the Marketing and Promotions Directorate must be created and made into a functional entity, complete with offices and equipment and routinized working procedures.

Once these steps are completed, PIEFZA must begin to implement a pro-active marketing and promotion strategy. As these marketing activities begin, it can also be expected that there will be a significant increase in the number of inquiries received by PIEFZA, thereby adding a large incremental workload to the existing demands facing the agency. Finally, once these efforts are underway, PIEFZA will need to expand its focus to encourage the development of “backward linkages” – that is, the local

purchase of inputs and supplies by IE/FZ firms -- between IE/FZ firms and domestic suppliers

These activities constitute an ambitious but absolutely vital agenda for PIEFZA in the upcoming three years. The discussion below will outline the proposed investment promotion strategy and set forth the tasks that must be completed for PIEFZA to implement this strategy.

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**7.3 Building PIEFZA’s Investment Promotion Capability**

Building PIEFZA’s investment promotion capacity rests on two separate but inter-related elements that must be achieved simultaneously: developing the agency’s marketing and promotion capabilities and developing its investor servicing capabilities. These will also need to be supplemented by the development of a backward linkages program. Each of these elements is discussed in turn.

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*Development of PIEFZA’s Marketing and Promotional Capability*

In order to carry out the promotional and marketing plan, PIEFZA needs to develop an internal promotional capability. Since PIEFZA will be starting from ground zero in this regard, a large number of tasks will have to be undertaken in the next three years.

**Next Steps**

**Task 1: Hire needed staff and operationalize the Marketing and Promotions Directorate.** The first step in making this Directorate operational will be to identify and hire appropriate staff. In light of the fact that the Marketing and Promotions Directorate is not yet functional, however, this staffing should be staggered over the three-year period, as follows:

*Year 1:* Hire the Director of Marketing and Promotions, the Promotions Officer, and the Investor Services Officer, and the Administrative Assistant.

*Year 2:* Hire a Research Assistant.

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*Year 3* Hire a second Investor Services Officer and a second Research Assistant.

This staggered hiring has several advantages. The Marketing and Promotions Directorate will have a limited capacity in the short-term to undertake marketing activities. By limiting hiring in Year 1 to the Directorate's three principals, these individuals will be able to focus on establishing the Directorate and developing needed procedures and practices. During this year, extensive training (see below) should be provided to better prepare this staff to undertake a marketing and promotion campaign.

By Year 2, the Directorate will be more established and better capable of initiating extensive marketing activities. At this point, a Research Assistant should be hired. This individual will help the Promotions Officer by researching industry and sectoral trends, maintaining relevant databases, compiling comparative data on competitor investment locations, and other needed functions.

In Year 3, the Directorate's marketing campaign should be generating a sufficient number of leads to necessitate the hiring of a second Investor Services Officer. A second Research Assistant should be hired at this point, preferably with a specialization in the key industry sectors targeted for promotion by PIEFZA.

All of these staff members should be Palestinian.

**Task 2: Strengthen the knowledge and skills base of the Marketing and Promotions Directorate.** Given both the traditional state dominance of the economy in WBG and the nascency of FDI inflows, it is unlikely that the individuals hired to staff the Marketing and Promotions Directorate will have extensive marketing and business development experience or familiarity with the needs and motivations of foreign direct investors. This training should include instruction in global investment trends; investor targeting techniques; the development of a marketing strategy; sales techniques and negotiating with investors; and related key areas.

**Task 3: Expand the MIS system to support investment promotion and marketing activities.** As discussed in Chapter 5, PIEFZA's existing MIS system needs to be expanded to support the information needs of the Marketing and Promotions Directorate. While much of this information can initially be maintained in a paper format, in the medium-term, access and maintenance of this data can best be achieved electronically.

There are two categories of information that will have to be maintained by the Marketing and Promotions Directorate. They are

*Product files* – These should include all available data and information on WBG, including national economic and cost data; data on each IE/FZ; trade and FDI incentive policies; available infrastructure and services; local labor issues; network of potential local suppliers; list of potential joint venture partners; and administrative procedures and practices.

*Marketing Files* – These should include a target sector database, based on the investor targeting system; a target market database, based on the output of the investor targeting system; individual corporate presentation database; listing of donor agencies; domestic activities; and performance benchmarking.

**Task 4: Establish an Investor Tracking System:** As the marketing and promotional efforts get underway, the volume of investors (prospective and existing) will increase. A suitable tracking system needs to be established to track all aspects of PIEFZA's relationship with clients, both current and prospective.

This system may initially be paper based, but should be computerized by the end of Year 2. Potential investors would be entered into the system at the time of first contact. All contact details together with industry sector, country, location in WBG, and dollar value of the investment will be entered, as will the action required from PIEFZA as a result of this contact. Such a system will allow the agency to track contact with potential

investors from initial contact, to site visit, to investment realization.<sup>2</sup>

A number of tracking systems are available (e.g., from UNIDO and the World Bank) on an off-the-shelf basis. These systems are often complex, however, and require too much inputting by agency staff. Successful agencies such as Singapore's Economic Development Boards, however, have successfully developed their own tracking systems by adapting sales tracking software available on the open market to their specific needs. A similar approach should be adopted by PIEFZA. As discussed in Chapter 5, this system should be designed and implemented in coordination with the MIS Unit.

**Task 5: Strengthen PIEFZA's public/press relations capability.** Although the PIEFZA's Public Relations Unit is part of the Executive Directorate and reports directly to the Director General, this Unit will need to have close coordination with the Marketing and Promotions Unit.

The Public Relations Unit is fully staffed with two professional employees, but could benefit from further specialized training to strengthen the Directorate's capabilities. The focus of this activity will be to help the Directorate to develop and maintain appropriate press contacts domestically and internationally. Training should be provided in preparing press kits; writing press releases; writing speeches; preparing overhead presentations; preparing scripts for promotional videos; preparing advertising supplements for international publication; and organizing promotional events.

Instruction should also be provided on the use of information technology (e.g., web pages, e-mail) as a public relations tool and how it can be combined with more traditional public relations techniques into a comprehensive public relations campaign.

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<sup>2</sup> This system differs from PIEFZA's current MIS system in that it would track investors from initial contact. The current system is application-based, and compiles information that is obtained only after the investor has completed an investment application.

Finally, Directorate staff should be trained in ways to measure the impact of public relations and image-building efforts, including the use of surveys and other techniques for evaluating investor perceptions.

**Task 6: Establish performance benchmarks.** Once the Marketing and Promotions Directorate is established, performance benchmarks should be established to (1) measure success (or lack thereof); (2) assist management decision-making; and (3) measure individual performance. As discussed in Chapter 4, quantitative performance-benchmarking is an important management tool and this practice should be implemented throughout PIEFZA. Many of the benchmarks of PIEFZA's external performance (e.g., number of investments) will directly reflect the activities of the Marketing and Promotions Department.

Given that Year 1 will be largely spent on hiring staff, establishing the Directorate as a functional operation, and initiating marketing and promotion activities, these benchmarks should not be adopted until Year 2.

Possible benchmarks include:

- Dollar value and number of approved investments;
- Dollar value and number of realized investments;
- Jobs created;
- Number of inquiries received;
- Response time to inquiries;
- Number of proactive site visits by target firms facilitated by PIEFZA;
- Number of reactive site visits by target firms facilitated by PIEFZA;
- Number of outward investment promotion missions;
- Number of staff trained in a given period.

A final set of performance benchmarks should be identified by PIEFZA by the end of Year 1.

*Development of an Investor Servicing Capability*

In addition to developing its marketing and promotion capability, PIEFZA also needs to establish an effective investor servicing capability. This is a separate function but one that is integrally related to PIEFZA’s marketing and promotion activities: the Marketing and Promotions Unit will attract investors to WBG, while the Investor Servicing Unit will be responsible for helping those investors through the application and approval process and monitoring their subsequent satisfaction with the investment climate.

Two individuals should initially be hired in Year 1 for the Investor Servicing Unit. Once the marketing efforts begin to yield a larger inflow of prospective and existing investors, an additional staff member should be added in Year 3.

**Next Steps**

**Task 7: Adopt an “Account Executive” approach to investment facilitation.** In the Account Executive approach, each potential investor is assigned to a single investment facilitation officer. This officer has responsibility for that project from inception to start-up and operation, and will be responsible for meeting with the investor, arranging site visits, providing needed information and data, and assisting the with the investment application process. Worldwide experience has shown that this approach is the most successful method for investment facilitation because it establishes a line of responsibility and accountability, gives investors a consistent point of contact throughout the investment process, and enables staff performance measurement.

**Task 8: Conduct customer service training.** The effectiveness of the Account Executive approach rests on the quality of customer service provided to investors. As with the Marketing and Promotions Unit, the staff hired to carry out PIEFZA’s investor servicing function are unlikely to have substantive experience in working directly with investors. In order to strengthen their investment facilitation capabilities, they should be trained in customer service techniques. Such training has proven to be

highly successful in several Middle Eastern, Asian, and African countries. This training should cover the following:

- Key elements of great customer service;
- Telephone etiquette;
- Dealing with difficult customers;
- Team building; and,
- The importance of maintaining contacts with investors.

**Task 9: Produce an investment facilitation manual.** Following the staff training outlined above, a manual should be developed which contains PIEFZA's promotional policies and procedures. The Manual should explain the *purpose* of each policy, the *procedures* (i.e., how to do it), and *contingencies* (i.e., what to do if). The topics to be covered should include:

- Reception of prospects and visitors;
- Registration of prospects and visitors;
- Telephone etiquette;
- Relations with prospects and other visitors;
- Interoffice and outside communication;
- Dress code and comportment;
- File management; and,
- Management of confidential information.

This manual will be used for reference by both PIEFZA management and staff to ensure the sustainability of new habits and practices. It will also be an excellent training tool when training new staff.

**Task 10: Establish an Investor Maintenance System.** It is important that PIEFZA maintain relationships with investors after they have established operations. Such regularized contact has several advantages: it will enable the identification of investors whose "testimonials" can be used in marketing and public relations activities; it will assure that IE/FZ planning and expansion is closely aligned current and potential investor demand; and it will allow PIEFZA to maximize re-investment and expansions by

existing IE/FZ tenants (in some European countries, re-investment and expansion by existing investors account for as much as 60 percent of total incoming FDI).

Moreover, maintaining regular contact with existing firms will enable PIEFZA to monitor weaknesses or problems in the investment climate; this will enable PIEFZA to address those weaknesses and maintain/improve WBG’s competitiveness. By communicating regularly with existing firms, PIEFZA will know how satisfied they are with the business climate. PIEFZA should know how satisfied its customers are because they have a tremendous impact on future success, because any firm considering locating in WBG will first contact existing firms to determine the true business climate.

This investor aftercare function should track the progress of investors over time, incorporate and analyze data collected through periodic PIEFZA surveys, and integrate reinvestment opportunities with the investment opportunities with the investment promotion sales lead tracking module.

This system should be the responsibility of the Investment Facilitation Unit. It should consist of the following activities:

- Conduct an annual survey of all IE/FZ companies;
- Conduct an annual visit to each investor;
- Determine any expected changes in facility or employees and any assistance required from PIEFZA to deal with those changes;
- Determine any suppliers or support needs that may lead to further investment opportunities; and,
- Identify any impediments to profitable operation of the facility and plan to address those with the proper PA authorities.

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*Implementation of the Marketing Plan*

Implementation of the marketing plan will primarily occur in Years 2 and 3. Three key tasks will have to be performed for this

implementation to occur:

**Next Steps**

**Task 11: Develop and implement a detailed marketing implementation plan.** In order to implement the marketing program, a highly detailed implementation plan and timetable needs to be designed. This plan should specify, *inter alia*, the proposed timing and focus of direct mail campaigns; a defined pro-active networking strategy; detailed investment initiatives; the types, dates, and location of investment promotion missions, trade fair visits, etc. Development of this detailed plan is necessary before a work schedule can be drawn up for the marketing and promotions staff.

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*Backward Linkages  
Development*

The development of backward linkages between local suppliers and IE/FZ firms should be a high priority objective of the PA and PIEFZA because IE/FZ purchases of domestically produced inputs can expand the economic impact of the IE/FZ program. Such purchases both generate additional income and employment and stimulate improvements in the products and services of local suppliers. In addition, these relationships expose local producers to international production and quality standards. Moreover, they also help to attract foreign investment by offering the advantage of a local supplier base capable of offering quicker delivery times and reduced transportation and inventory costs.

Empirical evidence has shown, however, that IE/FZ programs seldom result in local sourcing in the absence of a pro-active and institutionalized effort to encourage such linkages. Foreign firms seldom make purchases from local suppliers due to concerns about the quality, reliability, and timely delivery of locally produced goods. These concerns can be overcome, however, through a program which actively matches foreign firms with capable local suppliers. PIEFZA is uniquely placed to undertake this catalytic role owing to its strong and close links to incoming foreign investment.

**Task 12: Design a Backwards Linkage Program.** After a period of consolidation and institutional strengthening in Year 1, PIEFZA should implement a backwards linkage program. This program should be housed in the Marketing and Promotions Division. The following functions should be carried out by this Unit:

- *Market Research* to identify linkage opportunities with foreign firms;
- *Matchmaking* between targeted SME firms and foreign firms to ensure that all possible obstacles to a subcontracting relationship are removed;
- *Monitoring and Troubleshooting* to overcome any obstacles that may arise; and,
- *Technical Advisory Service* to help SME firms to develop their management, marketing, production, accounting, and quality control systems.

This activity should be headed by a Palestinian with substantial private sector business (preferably in industry) experience.

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*Promotional Coordination with Developers*

Since the IE/FZ developers will benefit financially from PIEFZA's marketing and promotion efforts, PIEFZA should establish a formula by which developers should help pay for these activities. Currently, there is no provision for such cost-sharing. As discussed in Chapter 4, PIEFZA should develop a cost-sharing program whereby developers pay PIEFZA for successful marketing efforts. Under this performance-based system, developers would pay a fee – based on the amount of square feet that is rented – for each tenant that is generated and referred by PIEFZA.

## 8. Physical Planning and Customs

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### 8.1 Customs

Customs facilities and procedures are an important element of any IE/FZ program. The ease – or difficulty – of moving goods in and out of a zone can be critical to a program’s ability to attract and retain investment. Similarly, expeditious customs arrangements can have important promotional value in attracting investment, particularly export-oriented investment. While PIEFZA is not directly responsible for improving WBG’s customs arrangements, the importance of customs to the IE/FZ’s program success means that PIEFZA is the logical lead PA agency to focus on the need to resolve any weaknesses or problems.

A number of related activities have taken place under USAID’s SITE project to improve the Customs procedures for the IE/FZ program. These begin in May 1999 with a diagnostic review of Customs procedures. As a result of this review, PIEFZA decided to proceed with the development of a duty suspension regime for the GIE.

Using the current legal framework, a system has been designed, based on the Israeli Customs system. Finally, a Standard Operating Procedures (SOP) Manual was also designed and has been approved by both PIEFZA and Palestinian Customs; although originally intended just for the GIE, this Manual is applicable to all IEs. One GIE firm has begun to use this scheme for importing and exporting, although Palestinian Customs has not yet implemented any of the required systems or controls.

In the upcoming months, additional technical assistance will be required to implement the scheme. In particular, comprehensive training will be required to ensure that PIEFZA and Customs officials, as well as firms in the GIE, are fully knowledgeable about how the program works and to enable firms to fully take advantage of its provisions.

A study tour to Jordan has also been proposed, to view that country's suspension/drawback regime; supporting computer system; ASYCUDA system for processing Customs entries; and procedures used at several Jordanian IEs. These technical assistance activities, which may be carried out under the current SITE project, will complete the implementation of the duty suspension regime.

A number of other Customs issues, however, remain to be addressed. Foremost of these is the need and prospects for a common bonded warehouse (CBW) and inland container storage yard (CSY) and related facilities at the GIE, and/or an inland container depot (also known as a "dry port"). A preliminary study is currently being completed on these options. Depending on the results of this analysis, a decision may be made to go ahead with their development.

Should this project proceed, appropriate Customs procedures and safeguards would have to be developed and a warehouse would have to be constructed. The existing airport hangar adjacent to the GIE could quickly and easily be converted to a bonded warehouse facility, and development of such a facility would be of great benefit to traders in Gaza.

Once accomplished, there will be a need to examine similar warehousing sites in Rafah and the West Bank. Currently, the lack of a bonded warehouse means that goods have to be cleared and duties paid at Israeli ports using Israeli Customs officials. There is no mechanism for bringing in goods by container load, storing them duty free, and using them as needed. Development of such bonded warehouses would increase the competitiveness of Palestinian firms and encourage export activities.

In the medium-term, it is also probable that companies operating outside the IEs/FZs would become interested in having access to a duty drawback scheme. Allowing single firms to utilize duty drawback mechanisms has proven in other countries to be a successful way to encourage the export development and to disperse the economic benefits of such a program throughout a

country or region. There is currently no provision for such firms to participate in a drawback program, however, and such a program would need to be developed and implemented before this could occur.

Customs procedures are also currently lacking at the Gaza airport; for Israeli security reasons, no cargo planes currently service the airport and the commercial consignments carried by passenger aircraft are transferred to Rafah for Israeli inspection. If an IE/FZ were constructed near the airport, cargo clearance procedures would be needed at the airport.

Similarly, the development of the Gaza port by the EU and the World Bank will require the design and implementation of appropriate procedures and training of Customs officials in the use of those procedures. There has been apparently no discussion among donors to date regarding the development of customs or other procedures needed to operate such a port.

From an institutional perspective, additional work may be needed to reform and strengthen Palestinian Customs. Although an institution-strengthening program has been underway for the past two years by German Technical Cooperation (GTZ), progress under this program is uncertain. Additional work is probably necessary on improving processing systems, expanding the use of automated systems, modernizing Customs laws and procedures, etc. These will be necessary to ensure that the implementation of Customs practices do not pose a constraint on the growth of the IE/FZ program with the GTZ and other donors.

A key characteristic of the customs-related reform programs that have taken place to date in WBG is a general lack of coordination between donors. In addition to work by the GTZ, customs-related technical assistance is being provided by USAID, the IMF, UNCTAD, and the EU. Much of this work is being undertaken on an ad hoc basis, with little coordination and in the absence of any form of customs master reform program. The current lack of a strategic master plan means that it will be difficult to ensure that customs procedures/controls to support IE/FZ development are

consistent with -- and integrated effectively with – other planned reforms.

Finally, as additional IE/FZs are developed, WBG will need to expand its Customs capabilities. This will include the development of customs procedures other than a duty drawback program, as well as the physical enhancement of Customs offices at borders. Continued reliance on duty drawback procedures will place the Palestinian IE/FZ program at a competitive disadvantage vis-à-vis similar programs in the region.

Likewise, Customs facilities at borders may be inadequate to support a growth in import/export traffic. The Customs offices and physical inspection and storage facilities at Rafah, for example, are very small. Israeli and Palestinian Customs agents operate out of small mobile offices, and it is clear that if more trucks and cargo were to be cleared at Rafah (currently 3-15 trucks cross the border each day), these existing facilities would have to be upgraded.

**Next Steps**

**Task 1: Conduct a strategic assessment of what other types of Customs arrangements will be needed.** In the medium- to long-term, the competitiveness of the IE/FZ program will be harmed by continued reliance on a duty suspension regime. A strategic assessment should be performed which:

- evaluates what other types of customs regimes should be developed, particularly taking into account the needs of high tech firms, the development of new IEs/FZs, and the development of new infrastructure such as Gaza port;
- assesses the physical capacity/requirements of Customs offices at key border points;
- assesses what Customs-related technical assistance has been implemented or is under consideration by donors;
- examines the customs programs utilized by other IE/FZ countries in the region to identify what will be needed to increase the competitiveness of the Palestinian IE/FZ regime; and,
- sets forth a timetable and strategic plan for the

development and implementation of new customs regimes or practices.

**Task 2: Assess the operation of the duty suspension regime.**

The duty suspension will be fully operational once the proposed training for GIE firms and PIEFZA and Customs officials is completed. The operation of this program should be assessed approximately six months after the program becomes operational in order to ensure that it is operating as planned and to ensure that procedural or other difficulties are not frustrating GIE users.

**Task 3: Develop bonded warehouse and dry ports in Gaza.**

Assuming the findings of the feasibility analysis are positive, PIEFZA should proceed with the development of a bonded warehouse and dry port in Gaza. This program will have the advantage of allowing traders in Gaza to move goods from Israeli ports (and eventually Gaza air/port) into a bonded facility while suspending the payment of duties until the goods enter the local market or GIE.

Implementation of this program will require the development of appropriate customs procedures and practices; design of appropriate forms; completion of a SOP Manual setting forth those procedures; and training for PIEFZA and Customs officials and potential users in the use of the system. As with the development of the duty suspension regime, these bonded warehouse procedures should be based on a detailed analysis of current Israeli bonded warehouse procedures which would then be adapted to the Palestinian context. The training for Customs officials should include hands-on practice in the system's operation to ensure that the necessary files, systems, etc. are in place to properly administer the system.

**Task 4: Assess the feasibility of establishing a bonded warehouse in the West Bank.** If a bonded warehouse is successfully implemented and used in Gaza, a feasibility study of establishing a similar program in the West Bank, including site evaluations, should be conducted.

**Task 5: Develop a duty drawback program for use by single factories operating outside of IEs/FZs.** In the medium-term, a program should be developed enabling single firms to utilize duty drawback.

**Task 6: Evaluate the need for additional assistance to strengthen Palestinian Customs.** It is probable that Customs will need additional institution-building assistance as well assistance in the development of automated processing, entry processing, etc. Such assistance will be particularly necessary if more technical Customs procedures are to be implemented. Further strengthening of Customs will aid the overall competitiveness of WBG as an investment site, but the provision of such assistance would have to be closely coordinated with the GTZ.

**Task 7: Develop and implement free zone customs procedures.** There are currently no free zones in operation in WBG. Free zone development will necessitate the development of specialized customs policies and security practices will be needed for the following: to ensure that that goods do not leak from the zones to the customs territory; to regulate the transit of goods in/out of the free zones; to govern the periodic/selective physical inspection of goods moving and out of zones; to audit investors' records; to govern sales to the local markets; etc.

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**8.2 Green Line Strategies and the Cross-Border Movement of Goods and Labor**

In its first year of operation, PIEFZA has made significant progress towards improving the movement of goods and labor. In particular, a full-time customs/security manager has been appointed, and customs and security procedures have been developed and are being implemented governing imports/exports out of the GIE.

Labor mobility, however, remains problematic and threatens the future growth of the IE/FZ program, particularly in relation to attracting high-tech Israeli investment. Palestinian trainees find it

difficult to obtain permission to travel to their Israeli parent company, even on short-term on-site training activities. From the perspective of Israeli IT professionals, working in WBG is associated with serious security concerns. The issue of labor mobility on both sides of the Green Line is thus central in any effort to integrate the Israeli IT industry with the Palestinian economy.

Even in the case of the Khadoury Technology Development Center, which lies on the Green Line and seemingly obviates the need for Palestinians to travel to Israel, cross-border labor movements are important for several reasons. Much of the human resource development requirements of technology-based companies goes beyond the simple acquisition of “hard skills” such database design. To share corporate culture, absorb company-specific systems and approaches, observe productive and collaborative work processes, and gain exposure to proprietary technologies in a secure setting, it is often still vital for new Palestinian employees to spend at least some time being trained on-site, at the Israeli parent company’s offices.

While telephone, email, and teleconferencing can help to bridge this gap, communications technology is still too limited to serve as a real substitute for every-day office dynamics in building relationships and sharing knowledge – both formally and informally. In addition, the international nature of the IT industry requires that Palestinian investors, partners, and professionals be able to attend business meetings and meet international investors on short notice, on both sides of the Green Line.

The KDTC is anticipated to come into operation in 2001. To ensure that this zone will be able to attract tenants, PIEFZA needs to quickly establish competitive working procedures with Israeli authorities to better govern the movement of people and goods into and out of WBG IE/FZs. These procedures need to be transparent, automatic, agile, dependable and closure-proof. To this end, staff should be dedicated to specialize in customs, logistics and security issues. By developing internal capabilities in these areas, PIEFZA will greatly strengthen its authority in

facilitating these issues rather than depending on other PA bodies.

Progress on this issue is not just important to the future development of Khadoury, but may affect other IEs/FZs as well; for example, the IE planned for development at Rafah in 2002. Currently, there is little traffic moving between this border location between Gaza and Egypt. Palestinian Customs officials estimate that the current volume of commercial business could increase by up to tenfold if it were not for the long cargo dwell times (typically 1 to 1.5 days) caused by Israeli security cargo inspections, as well as bureaucratic procedures and expensive transaction fees which must be paid by Gaza importers.

Israeli security staff perform 100 percent “back to back” cargo inspections and Palestinian Customs staff state that they are prohibited from entering the Israeli security inspection shed. Only Israeli licensed customs agents/brokers are authorized to prepare the customs entry documentation and interface with the Israeli Customs computer system. Clearly, IE/FZ development in Gaza that intends to export/import through Rafah will be dependent upon the rationalization of the current cumbersome and costly security checks, a reduction in fees and transactions costs, and the development of more efficient development of declaration processing procedures.

#### **Next Steps**

**Task 8: Establish a working group to address customs treatment and labor/cross-border movements.** Given the importance of simplified procedures for the movement of labor and goods to the future of the Palestinian IE/FZ program, PIEFZA should take the lead in establishing a working group to address these issues. This group should be comprised of representatives from Customs, the Ministry of Labor, and the Director General of PIEFZA (or a delegated representative). This group should focus on making investment-related proposals for simplified systems and procedures at the WBG borders. This group will support the PA’s negotiations with Israel to liberalize the movement of goods and people across the Israel-WBG and international boundaries.

The objectives of this group should include, *inter alia*, the following:

- Implementation of efficient and effective transit controls for containers moving form WBG zones;
- Identify ways in which “back to back” inspection procedures can be selectively removed or minimized to reduce cargo dwell times; and
- Negotiate with Israel the means to allow joint inspection/clearance of air cargo at Gaza airport, without having inspection/clearance occur at Rafah.

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**8.3 Infrastructure and  
IE Physical  
Development**

PIEFZA should address a number of issues that affect its capability to oversee the development of additional IEs/FZs in WBG. These include the future practices regarding the provision of off-site infrastructure, developer searches, and assessing developer financial projections.

PIEFZA was heavily involved in the establishment of infrastructure for the GIE. This involvement placed a significant burden on the agency, and drew resources and staff time that could have been otherwise spent on other activities. While PIEFZA’s involvement was ultimately justified, given the importance of successfully the first industrial estate, PIEFZA can ill-afford in the future to commit such resources and staff time to infrastructure issues.

Infrastructure provision is likely to be an issue arising in the development of other IEs/FZs in WBG. To reduce PIEFZA's role in this area in the future, the agency needs to develop more effective mechanisms to facilitate private infrastructure provision and property development. Such mechanisms have been used with success in a number of IE/FZ locations.

PIEFZA also currently has no program for conducting searches for qualified developers to develop and operate IEs/FZs. To date, this has not posed a problem as PIEFZA has not had any problem finding interested developers. Nonetheless, long-term

development of the program will depend on the selection of developers who can successfully implement and carry out zone development. PIEFZA should strengthen its developer search capability to ensure that future developers can be drawn from an experienced, technically qualified, and financially sound group of potential candidates.

Finally, as discussed in Chapter 5, PIEFZA has indicated that its capabilities for evaluating the financial projections and capital flows of developers could use strengthening.

**Next Steps**

**Task 9: Evaluate and identify private sector infrastructure implementation mechanisms.** In order to encourage greater private sector involvement in the development of infrastructure, the use of various mechanisms such as guarantees, BOO and other concession arrangements, financing schemes, etc. should be explored. This approach is consistent with other efforts<sup>1</sup> by the PA to encourage the private sector participation in infrastructure provision.

This exercise should be undertaken after PIEFZA has developed internal guidelines detailing developers' responsibilities in the establishment of IEs/FZs (as discussed in Chapter 4). These guidelines will define what assistance PIEFZA is – and is not – willing to provide to developers in terms of infrastructure and operational development. Once these responsibilities are defined, PIEFZA can proceed to explore alternative mechanisms for the development and provision of the infrastructure needed to support IE/FZ development.

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**8.4 Regional and Physical Planning**

There are a number of projects, both on-going and planned, to upgrade or develop various facilities or physical infrastructure in

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<sup>1</sup> For example, there are two privately managed public infrastructure projects undertaken with support of the World Bank: the Gaza Water and Sanitation Services Project and the Electricity Distribution and Management Project. In addition, the World Bank's International Finance Corporation has been approached to participate in an independent power project in Gaza.

WBG. To be effective, the development of additional IEs/FZs, container storage yards, bonded warehouses, ports, etc., should be undertaken in a systematic fashion, using detailed physical planning to ensure the integration of facilities and transit corridors. Such integration will be necessary to ensure the smooth and expeditious transfer of inputs and goods between these various facilities, firms, and end-markets.

**Next Steps**

**Task 10: Advocate the development of a regional development master plan.** Since future growth of the IE/FZ program will be affected by the extent to which physical facilities and transit corridors are effectively integrated, PIEFZA should be an advocate for the development of a regional master plan. This plan should take into account the physical and infrastructure attributes of the WBG, as well as on-going and planned infrastructure and facility development. This master plan will identify the optimal use, development, and integration of facilities such as ports, airports, logistical transport networks, main transport routes, and labor pools. This plan should be used by PIEFZA to:

- identify all on-going or planned physical, infrastructure, and facility developments;
- assess the impact of these on-going developments on the IE/FZ program;
- identify any physical, infrastructure, logistical or other constraints that may impede the future development of the IE/FZ program;
- advise PIEFZA on how to manage the interface between these national developments and the IE/FZ program; and
- alert PIEFZA to any physical infrastructure or related issues that may have to be raised with the PA.

## 9. Labor and Manpower Development

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### 9.1 Current Labor Availability and Demographics

The demographic characteristics of the Palestinian labor force both create opportunities and place potential constraints on the development of the IE/FZ program. PIEFZA's challenge in the next three years will be to take advantage of this human resource base, particularly through the attraction of higher-technology investment, while ensuring that current weaknesses in the education system and technical skill base do not deter such investment.

The combined population of the West Bank and the Gaza Strip totaled approximately 2.8 million in 1997, with more than 1 million residing in the Gaza Strip. A very high birth rate and average family size of 7.6 means that nearly half of WBG's residents are younger than 15 years of age, and almost three-fourths of the population is between the typical school enrollment ages of 6 and 23. This places (and will continue to place) a heavy burden on the tax base of the region and, ultimately, on the economic development required to create an expanding job base for this growing work force.

Estimated rates of unemployment in 1998 were 21.5 percent, and rates of underemployment 9.3 percent. About one in four West Bank workers is employed in Israel.<sup>1</sup> Female labor force participation is low at only about 11 percent -- 5.5 percent in the Gaza Strip and 15.2 percent on the West Bank.

As a result of the large proportion of the population that is less than 15 years in age, the size of the labor force (population aged 15 and older) is relatively small in comparison. The relative size of the labor force, vis-à-vis the local population, varies between locations, ranging from a low 36 percent in the Gaza Strip to 48 percent in Jenin. Despite its small size, the Palestinian labor force

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<sup>1</sup> Center for Private Enterprise Development, Industry Needs Assessment:

is among the most productive in the region, primarily due to labor's strong ties over the years to Israeli industry. Literacy rates are high, averaging 86 percent in the West Bank and Gaza Strip.

However, in terms of formal education, the Palestinian labor force lags behind its neighbors. For example, in Jordan, more than 17 percent of its labor force has obtained tertiary education, while only 4.5 percent of the Palestinian labor force (population ages 15 to 64) has obtained a higher education, though the rate is significantly higher in the Gaza Strip (6.5 percent) than in the West Bank (4.2 percent)<sup>2</sup>. Tertiary enrollment rates have grown over the last few years and approximately 30 percent of high school graduates go on to work towards a tertiary degree (20 to 30 percent attending 2-year colleges, 5 percent attending 4-year universities). Returning expatriates, many of who have studied and worked abroad, continue to supplement the local human resource pool.

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*Technical Skills*

The technical skills of the workforce will affect the types of industries that the IE/FZ program is able to attract. While strong technical skill levels are not necessary for some of the sectors that PIEFZA will be targeting – such as apparel or stone and marble -- they will be critically important to the ultimate success of the Khadoury Technology Development Center (KTDC) at Tulkarem.

By occupation, professionals, managers, and technicians constitute 18.6 percent of the labor force. The remainder of those working are employed in low-skilled and semi-skilled positions as farmers, machine operators, assemblers, shop workers, etc.

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Software/Information Technology/Data Processing, 1997.  
<sup>2</sup> These low rates of education can, in part, be attributed to the period of the Intifada, which resulted in the closure of the Palestinian universities, as well as the low rate of tertiary education for females.

Only 60 percent of the work force are employed by others, on a wage basis. Five percent are employers themselves, 23 percent are entrepreneurs, and 12 percent are unpaid family members.<sup>3</sup>

There is little useful information about the skills and competencies of the current labor force, or on how much employers or employees invest in on-going training. Although Palestinian basic literacy levels are higher than those in most developing countries, the average years of schooling of the adult population is only 8.1 (which is still 1.9 years higher than the Middle East average). The dominance of “low technology” industries in the current economy, and the young age of the population, suggest a shortage of the kinds of technical skills and experience that are typically acquired on the job in economies that are based on more technology-dependent industries. Even in the higher-technology sectors, worker skill levels are low. For example, in plastics, only one in three workers have completed high school, and only two percent have any university-level training.

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*Overview of Human Resources and Education*

As identified in the Khadoury Technical Development Center (KTDC) Feasibility Study, WBG’s human resources and education and training systems have the following strengths and weaknesses as a source of technically skilled labor:

- The educational system is strained by increasing enrollments, and this situation is likely to worsen.
- Basic and secondary teachers are insufficiently prepared and supported for a technology-driven economy.
- Problem-solving skills of students are relatively poor.
- Basic and secondary education lacks a clear philosophy.

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<sup>3</sup> International Conference on Employment in Palestine.

- Families and students prefer academic over vocational studies, four-year over two-year colleges, and humanities over sciences and technology—all of which deter enrollments in high-demand IT fields.
- The economy currently employs a low proportion of skilled workers and technicians.
- Relationships between academia and business and industry are weak.
- Most colleges are quite dependent on the generosity of foreign governments or wealthy expatriate Palestinians for computers, labs, and scientific and technical equipment.
- There is no systematic and regular procedure of gathering information about skill needs.

Moreover, there is a clear differential between the West Bank and Gaza Strip in terms of the types and extensiveness of technical education that is provided. As shown in Table 9.1, many technical skill areas are not taught in Gaza Strip universities or technical colleges. This has important implications for the adequacy of the supply of appropriately skilled labor needed to fill the IEs, as discussed in the following section.

Despite these weaknesses, the existing system also has considerable strengths and potential:

- The weaknesses of the educational system are recognized, debated, and are being addressed through a number of recent reforms.
- There is strong interest in learning and borrowing (with modifications) from other systems in order to improve quality (e.g., the adoption of Scottish standards, modularization for some programs, and the planned introduction of a German-inspired vocational training system in Nablus).

**Table 9.1: Comparison of Technical Training Programs, West Bank and Gaza**

**University-Level Programs**

Program	West Bank	Gaza Strip
Food Manufacturing	X	
Electronic Engineering	X	
Industrial Engineering	X	
Computer Systems	X	X
Information Systems g	X	
Electrical Engineering	X	X
Mechanical Engineering	X	

**Technical College Programs**

Program	West Bank	Gaza Strip
Electrical Engineering	X	
Telecommunications		X
Mechanical Engineering	X	
Computer Hardware Technology		X
Radio, TV, Video Technologies	X	X
Air Conditioning & Refrigeration	X	
Production & Machines	X	
Industrial Automation	X	
Electronics of Industry ( <i>sic</i> )	X	

Source: Ministry of Higher Education, Statistical Yearbook 1998.

- There is a growing core of college and university technical programs in computer and IT-related fields.
- Women are increasingly enrolling in technical programs, particularly in computer fields.
- Literacy rates are high compared to most Middle Eastern countries.
- Palestinian students (and culture) are quite entrepreneurial.
- There are some visionary leaders within the educational system.

- There is an expressed desire to build closer ties with industry and to focus on preparing youth for jobs in emerging and higher-tech industries.
- There is some IT specialization within (and thus differentiation among) colleges.

Thus while WBG's human resources and education and training systems have a number of weaknesses, information technology appears to be a field with growing appeal and therefore a growth area for re-training. There appears to be a percentage of the work force with both the desire and capacity to learn IT skills. The challenge in the upcoming years will be to ensure that existing IT-skilled workers are matched with available employment opportunities, and that opportunities are developed for students and workers to expand their IT skills.

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## **9.2 Projected IE/FZ Labor Requirements**

The rapid development of IE/FZs in WBG, in combination with the weaknesses in the WBG's technical education system, raises the important question of whether there is a sufficient supply of appropriately skilled labor to support this growth. As shown in Tables 9.2 and 9.3, it appears that adequate supplies of workers exist to support projected IE/FZ growth over the next five years.

**Table 9.2 Projected Gaza IE Labor Requirements, Supply, and Absorption**

		2000	2001	2002	2003	2004
Annual New Manufacturing Employment(1)	Of Which:					
	Professional, Technical(2)	54	54	86	119	151
	Skilled	189	189	303	416	530
	<i>Semi-Skilled(3)</i>	189	189	303	416	530
	<i>Laborers (3)</i>	108	108	173	238	303
Available Labor (5)	Professional, Technical	870	905	940	975	1,010
	Skilled	1,530	1,570	1,610	1,650	1,690
Surplus/Shortfall	Professional, Technical	816	851	854	856	859
	Skilled	1,341	1,381	1,307	1,234	1,160

**Table 9.3: Projected West Bank IE Labor Requirements, Supply, and Absorption**

		2000	2001	2002	2003	2004
Annual New Manufacturing Employment(1)	Of Which:	0	540	1508	1594	1638
	Professional, Technical(2)	0	54	151	159	164
	Skilled	0	189	528	558	573
	<i>Semi-Skilled(3)</i>	0	189	528	558	573
	<i>Laborers (3)</i>	0	108	302	319	328
Annual New IT Employment	Of which:	0	100	150	175	200
	IT Professionals (4)	0	33	50	58	66
	IT Skilled (4)	0	66	99	116	132
Available Labor (5)	IT Professionals	600	800	1000	1200	1400
	IT Skilled	390	570	750	930	1110
	Professional, Technical	2230	2345	2460	2575	2690
	Skilled	3850	3950	4050	4150	4250
Surplus/Shortfall	IT Professionals	600	767	951	1142	1334
	IT Skilled	390	504	651	815	978
	Professional, Technical	2230	2291	2309	2416	2526
	Skilled	3850	3761	3522	3592	3677

**Assumptions and Data Sources:**

1. New employment in IEs is based on employment projections contained in Table 3.3 in Chapter 3, assuming that

one-third of local investment will be new investment or expansions, whereas two-thirds will be the relocation of existing industry (and therefore jobs)

2. Proportion of manufacturing employment required in each skill category (professional/technical, skilled, semi-skilled, and laborers) is based on the average skill ratios for light industries worldwide (i.e., 10% of the workforce is professional/managerial, 35% is skilled, 35% is semi-skilled, and 20% is unskilled)

3. Semi-skilled and laborer positions are excluded from excess/shortfall totals because they require no formal training and therefore are unlikely to be in short supply.

4. Proportion of IT employment required in each skill category (professional/technical and skilled) is based on the estimated average IT workforce ratio of 33% professional and 66% skilled.

5. Available labor is comprised of unemployed professional and skilled workers, plus annual output of university and technical college graduates, less any workers employed in the IEs/FZs during that year. Assumes that 150 university and 140 tech college graduates in technical disciplines enter the work force per year in both West Bank and Gaza (based on 1998 data). Unemployment and graduate totals are from Palestinian Central Bureau of Statistics, Labour Force Survey: Main Findings, March 1999 and Ministry of Higher Education, Statistical Yearbook, 1998.

It should be noted that these tables may overestimate the availability of professional and skilled workers owing to the following:

- The projections assume only one third of local investment in the IEs is new investment, creating new jobs (as opposed to the relocation of existing businesses into the IEs, which is likely to be the chief source of investment, as discussed in Chapter 3). If, however, there is a higher proportion of new investment in the IEs, the number of excess workers would diminish.
- The projections assume that all graduates are equally technically skilled, and therefore equally employable, whereas – as shown in Table 9.1 above – there is a marked divergence between the types of technical education offered in West Bank and the Gaza Strip.

Nonetheless, it appears clear that the supply of technical labor is sufficient to support the needs of IE/FZ and technology park firms in the medium-term.

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### **9.3 Implications for PIEFZA**

As discussed above, the WBG IE/FZ program faces several challenges in the area of labor and human resources. Key among

these are weaknesses in the current system of education and disparities in the types of technical training offered at universities and technical colleges in the West Bank and Gaza. While labor and education policy is not one of PIEFZA’s responsibilities, the importance of these issues to the medium- and long-run growth of the IE/FZ program – and to WBG’s competitiveness in attracting investment – means that PIEFZA cannot be indifferent to these issues. There are five key areas where PIEFZA can play a role in improving the human resource base to support IE/FZ development:

- Ensuring the short-term availability of labor, especially technical labor, by linking the supply of labor with incoming demand from new investors;
- Expanding the scope of the IE/FZ program to expand its capability to absorb skilled labor;
- Playing a policy advocacy role to improve the quality and availability of skilled and technical labor in the medium- to long-term;
- Assisting local entrepreneurs; and,
- Working to improve labor mobility.

These are discussed below.

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*Linking Supply with Demand*

A weakness in the Palestinian human resource system is in the collection, coordination, and dissemination of labor market information, and in the information linkages between schools, students, and employers. Such information and linkages are needed to:

- Monitor skills needs to ensure that academic programs and curricula are relevant to the needs of businesses;
- Give students and faculty familiarity with, and experience in, the workplace; and,
- Help students make informed choices among career paths.

These functions are currently not being performed. The government has no formal system monitoring demand and assessing the current

or projected skill requirements of employers. In addition, neither colleges nor universities have active industry advisory boards or procedures for regularly interacting with industry. As a result, curricula design and development often has no relevance to actual industry skill requirements, and students entering the market place typically have strong fundamental skills but only limited ability to apply those skills in practical applications. Overcoming this weakness is particularly important, given the potential shortage of skilled labor relative to IE/FZ needs.

**Next Steps**

**Task 1: Survey labor supply and demand.** In order to determine whether adequate supplies of skilled labor are available to support IE/FZ development, a human resources assessment should be conducted to identify the types and quantity of skilled labor that is available in WBG. This survey should also estimate the projected and current labor requirements of the IE/FZ program. The information obtained through this survey will provide the basis for the development of a Labor Market Information System (see below) that can be used to match the available labor supply with demand. This survey should be conducted on an annual basis in order to update the information contained in the Labor Market Information System.

**Task 2: Develop a Labor Market Information System.** The data obtained through the human resources survey should be incorporated into a Labor Market Information System that can be used to connect WBG education and training systems with potential employers. PIEFZA should monitor the overall labor supply and demand situation in the region and use this information to advise the PA and academic authorities on any additional interventions that may be needed to address this situation.

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*Expanding the IE/FZ Program’s Impact on Employment*

As the projections in Tables 9.1 and 9.2 indicate, WBG as sufficient supplies of skilled and technical labor to support IE/FZ and technology park development over the medium-term. While this is favorable news from the perspective of program success, these tables also indicate, however, that the IE/FZ program will be unable to employ all the available skilled labor that will be entering

the workforce over the next five years. This is a less favorable outcome from a policy perspective, since the IE/FZ program is envisioned by the PA to be an important source of employment.

This finding has important implications for PIEFZA. One, it indicates the need for vigorous marketing and promotion efforts to ensure that space in the IE/FZs is filled. Two, it shows the importance of ancillary efforts to expand the employment and economic impact of the IE/FZ program; for example, by establishing a backward linkages program (as discussed in Chapter 7) and introducing in the medium-term innovative and related programs such as shelter plans, industrial clusters, freeports, etc.

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*Policy Advocacy*

Development of the KTDC and WBG technology-based industry will require significant investments in human resources at all levels of education. Key elements of educational reform that will be required include:<sup>4</sup>

- Reforming teaching in the basic and secondary academic education system (since the IT industry is an industry of young people);
- Establishing a more efficient labor market system;
- Making the secondary vocational and tertiary systems more flexible, relevant, and connected to the IT industry; and,
- Generating interest in the fields among high-achieving students.

**Next Steps**

**Task 3: Make continued educational reform a key element of PIEFZA’s policy advocacy efforts.** PIEFZA is not responsible for educational reform, but the agency will need to perform an important advocacy role in urging the PA to undertake such reforms. As in other areas such as customs, PIEFZA’s contact

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<sup>4</sup> The need for educational reform, and the types of reform that will be necessary, are discussed in greater detail in the “Feasibility Study for the Khadoury Technology Development Center at Tulkarem,” The Services Group for USAID, Final Report, February 2000.

with investors means that the agency is uniquely placed to understand how WBG's labor availability and quality will affect the competitiveness of the IE/FZ program.

PIEFZA should use its policy development and advocacy role to ensure that technical education reform continues to be a PA priority. In addition, PIEFZA should work closely with educational institutions, particularly in Gaza, to expand the types of technical courses that are offered to students, and to ensure that academic courses more closely reflect the technical skill needs of IE/FZ firms.

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*Encouraging  
Entrepreneurship  
Development*

The Palestinian technology sector is small, concentrated in Ramallah, and inward-looking. These firms primarily serve local companies such as local banks and hospitals, or provide government administration systems to the PA. Development of the KTDC will provide a tremendous opportunity for these firms to become more outward-looking in their orientation and to develop linkages with Israeli or multinational partners.

The KTDC will also support small or emerging entrepreneurs through the provision of the incubator program and use of shared office space and facilities. While the facilities provided by the KTDC will be essential in encouraging the growth of these entrepreneurs, the other needed components of their success will be financial (venture capital) and technical support (including assistance in business management and marketing).

**Next Steps**

**Task 4: Develop an Entrepreneurship Support Program.** Although local entrepreneurs will be attracted to KTDC's incubator program and shared facilities, many of these entrepreneurs will be relatively inexperienced in operating a business, and accordingly will require assistance to transform these incubator projects into sound business entities. In addition to needing office and other facilities, they will also require additional hands-on assistance in establishing their operations, obtaining engineering or other assistance, etc. to turn these ventures into viable companies.

To ensure that these entrepreneurs can successfully make this transition, an Entrepreneur Support Program should be established. This program will work directly with, and provide support to, firms operating within the KTDC. The types of support that will be provided to these firms should include:

- Assisting firms in completing application and other procedures to establish in the KTDC;
- Acting as an interface between start-up firms and the KTDC;
- Providing managerial, organizational, and financial advice, including matchmaking with potential sources of venture capital;
- Managing common facilities such as laboratories, testing facilities, etc.;
- Managing common KTDC services such as secretarial services, accountancy services, etc.;
- Assisting firms in obtaining specialized technical, engineering, or other advice; and
- Providing trouble-shooting to help firms overcome management or other difficulties.

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*Labor Mobility*

As discussed in the previous chapter, the issue of labor mobility on both sides of the Green Line is central to any effort to integrate the Israeli IT industry with the Palestinian economy. In the short-term, the KTDC is likely to attract investments primarily from Israeli companies and U.S. and European multinationals that already have a presence in Israel. Current restrictions on labor mobility will hamper efforts to attract these high-tech firms.

As a result, the economic impact of the labor and manpower activities outlined above -- to better link labor supply with demand, improve the quality of the educational system, or improve the capabilities of local entrepreneurs to participate in joint ventures with foreign firms -- will be undermined if these foreign investment inflows are deterred. As noted previously, this is also an important part of PIEFZA's policy advocacy agenda.

## 10. Financial Planning and Financial Plan

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### 10.1 Current Financing

Under the Palestinian Industrial and Free Zone Law, PIEFZA may "accept loans and grants for development purposes" and "all revenue received by the Authority shall be at its disposal and shall, within the scope of its budget, be used for purposes which it shall determine with a view to carrying out its functions." The law identifies (under Article 15) five sources of financial resources:

- budgetary allocations from the general budget of the Palestinian National Authority;
- licensing fees collected from industrial estates and industrial free zone users;
- financial penalties collected in accordance with the law's provisions;
- grants and loans offered by other countries, international organizations, and local and foreign non-governmental organizations; and
- any other revenues collected in accordance with the law.

To date, however, external financing for PIEFZA has been provided through the following external sources:

- a World Bank loan of \$2.3 million for technical assistance and training which has been used to finance several of the initial establishment costs of PIEFZA, including office rental and utilities, office equipment and furnishings, and other operational expenses;<sup>1</sup> and,
- technical assistance provided by USAID's SITE project.

In addition, the Ministry of Industry has provided staffing and staff salaries, office space, and equipment, but no direct financial support.

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<sup>1</sup> This funding is part of a US\$10.0 million loan by the World Bank which includes financing of offsite infrastructure at the GIE.

PIEFZA receives annual income from the following sources<sup>2</sup>:

- fees for submission of an application by a developer (\$2,000);
- fees for approval of a developer's application (\$8,000);
- application fees (\$200 per application, paid at submission);
- IE certificate fees (\$800 per application, payable once the application has been completed and approved); and,
- annual operations fee for a building, based on the number of employees and square meters occupied (an average rate of \$1.20 per square foot).<sup>3</sup>

Interest income also accounts for a modest amount of annual income. In 2000, the total income from these sources is expected total \$25,000.

Under PIEFFZA Regulation No. (2), the annual license fee charged each company is set at \$1.80/sq.m., but this fee is routinely reduced by one- to two-thirds based on the amount of employment per firm. Under the formula used to determine this fee, companies a greater labor-intensity relative to their under-roof space pay a lower annual fee.<sup>4</sup>

PIEFZA can also collect a fee based on a share of the developer's profits. Currently, however, there is only one developer (GIE), and this developer is earning no profits.

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<sup>2</sup> As defined in PIEFZA Regulation No. (2).

<sup>3</sup> Under the PIEZA implementing regulations, the agency is also allowed to collect income from the following sources: annual license for an open area project (\$0.84/sq.m.) and license for the construction and development of buildings (\$2.00/sq.m.). PIEFZA has reported no income from either of these two sources.

<sup>4</sup> Annual fees are based on a formula that combines industrial space occupied by a company and the number of workers. It incorporates the factor N, which is the ratio of industrial space (IS) per number of workers (W); that is,  $N=IS/W$ . Accordingly, if N is less than or equal to 10, then  $F = IS \times US\$0.60$  if N is between 11 and 40, then  $F = IS \times US\$1.20$ ; if N is larger than 40, then  $F = IS \times US\$1.80$ . For example, a company with 1200 m<sup>2</sup> of industrial building has 80 workers (N=15) pays an annual fee to PIEFZA of US\$1,440, while a company with a building of 600 m<sup>2</sup>, employing 60 workers (N=10) will pay only US\$360 per year.

## 10.2 Financial Implications of the Revised Organization and Management Plan

The revised organizational and management plan discussed in Chapter 7 would have a number of financial consequences. These are:

- Hiring of 10 additional staff;
- Increasing current salaries to match other donor-funded organizations and projects; and
- Purchasing extra vehicles; and
- Furnishing satellite offices.

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## 10.3 Short-term Financing Strategies

The financial requirements to establish PIEFA as a fully operational agency clearly exceed PIEFZA's short-term revenue stream from application fees and annual payments by IE/FZ firms. The large discrepancy between incoming revenues and costs will remain in the short-term and will only shrink as promotional efforts result in significant growth in the number of IEs/FZs and firms.

### Next Steps

**Task 1: Revise PIEFZA's current fee structure.** There are number of measures that PIEFZA can adopt in the short-term to reduce this shortfall in income. They include the following:

*Raise application fees.* Current IE/FZ application fees are low by international standards and can easily be raised without harming the competitiveness of the IE/FZ program. Application fees should be raised from their current level and certificate fees should be raised, thereby generating additional revenue.

*Revise the terms of developer payments to PIEFZA.* Under the terms of its contract with PIEDCO, PIEFZA will receive 10 percent of PIEDCO's profit, but PIEFZA estimates that this is unlikely to yield any revenue until approximately 2004 at the earliest, and

perhaps longer.

As a general rule of thumb, payments linked to profit levels are problematic and should be avoided. The difficulty with this sort of payment scheme is that various accounting methods can be used by companies to avoid showing a profit and therefore evade payment. Future contracts with developers should be structured so that PIEFZA receives a pre-determined annual flat fee based on the square meters of zone space, rather than linked to which is not linked to the developer's profits.

*Charge developers a performance-based fee to recover the of promotion.* As discussed previously, developers should pay PIEFZA a fixed fee for each investor signing a lease agreement that is referred by PIEFZA.

## Task List

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This is a summary list of all the tasks identified in the 3-Year Plan, organized by functional area. Most, but not all, of these tasks will require TA.

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### *Institutional Roles And Relationships*

Task 1: Modify the PIEFZA organizational structure so that the Director General reports directly to the Board.

Task 2: The Ministry of Industry will increase the operational autonomy of PIEFZA.

Task 3: The Ministry of Industry will continue its strong advocacy of PIEFZA's activities and objectives

Task 4: Establish written performance criteria for the Director General.

Task 5: The Board should act as an interface between the Ministry of Industry and the Director General.

Task 6: The Director General will manage PIEFZA on a day-to-day basis and he will be held accountable for the agency's performance.

Task 7: Written performance objectives should be designed for each Directorate, and each Directorate director should be held accountable for achieving those objectives.

Task 8: Develop internal guidelines detailing developers' responsibilities.

Task 9: Develop procedures whereby developers share the cost of investment promotion

Task 10: Modify the IE and FZ laws to address the dual status of IE/FZ companies and to improve the competitiveness of the incentives regime.

Task 11 : Address greater attention to resolution of tax sparing, investment guarantees, and individual taxation of Israelis working in the GIE.

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*Organization Structure  
And Operations*

Task 1: Revise the existing organizational structure and draft job descriptions to reflect this structure.

Task 2: Formalize internal communication channels and reporting relationships

Task 3: Introduce a Management by Objectives (MBO) System:

Task 4: Formalize internal office rules and procedures and develop an Office Procedures Manual

Task 5: Establish wide area network (WAN) links with new offices as they are opened

Task 6: Expand the MIS system to include an Investor Tracking System

Task 7: Add permitting and licensing functions to the MIS tracking data base

Task 8: Expand the MIS system to handle other database and statistical functions

Task 9: Train PIEFZA staff in the use of the revised MIS system

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Task 10: Incorporate tracking measures into all PIEFZA activities:

Task 11: Develop external performance-measuring targets for IE, FZ, and Technology Park development

Task 12 : Develop internal performance-measuring targets.

Task 13: Assess PIEFZA's performance in implementing its strategic plan

Task 14: Monitor the application approvals process to ensure its continued efficiency

Task 15: Formalize the developer application process

Task 16: Strengthen the capabilities of the Accounting and Finance Directorate.

Task 17: Determine the ideal location of a centralized office and obtain and establish office facilities.

Task 18: Establish satellite offices in each IE/FZ as they become operational.

Task 19: Purchase additional vehicles.

Task 20: Purchase additional computers and information technology equipment.

Task 21: Purchase a standby generator.

Task 23: Furnish new satellite offices in each IE/FZ as it becomes operational.

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*Human Resource  
Development*

Task 1: Finalize staffing needs

Task 2: Recruit new staff for investment promotion and logistics

Task 3: Raise salaries to levels comparable to other donor-funded organizations and projects

Task 4: Eliminate the provision of PIEFZA security guards to IE/FZs

Task 5: Develop new staff training programs

Task 6: Establish and continue specifically targeted training visits to best practice IEs/FZs

Task 7: Strengthen the human resources function within PIEFZA.

Task 8: Establish and continue specifically targeted training visits to best practice IE/FZs.

Task 9: Strengthen the human resources function within PIEFZA.

Task 10: Assess the suitability of current staff for revised job positions.

Task 11: Design written personnel policies

Task 12 : Develop sound recruitment policies

Task 13: Develop a program to encourage staff self-training and employment

*Marketing and Promotion*

Task 1: Hire needed staff and operationalize the Marketing and Promotions Directorate

Task 2: Strengthen the knowledge and skills base of the Marketing and Promotions Directorate



Task 3: Expand the MIS system to support investment promotion and marketing activities

Task 4: Establish an Investor Tracking System

Task 5: Strengthen PIEFZA's public/press relations capability.

Task 6: Establish performance benchmarks.

Task 7: Adopt an "Account Executive" approach to investment facilitation.

Task 8: Conduct customer service training

Task 9: Produce an investment facilitation manual

Task 10: Establish an Investor Maintenance System

Task 11: Develop and implement a detailed marketing plan

Task 12: Design a Backwards Linkage Program

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*Customs and  
Physical Planning*

Task 1: Conduct a strategic assessment of what other types of customs arrangements will be needed

Task 2: Assess the operation of the duty suspension regime.

Task 3: Develop bonded warehouse and dry ports in Gaza

Task 4: Assess the feasibility of establishing a bonded warehouse in the West Bank.

Task 5: Develop a duty drawback program for use by single factories operating outside of IEs/FZs.

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Task 6: Evaluate the need for additional assistance to strengthen Palestinian Customs

Task 7: Develop and implement free zone customs procedures.

Task 8 : Establish a working group to address customs treatment and labor/cross-border movements

Task 9: Evaluate and identify private sector infrastructure implementation mechanisms

Task 10: Advocate the development of a regional development master plan

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*Labor and Manpower  
Development*

Task 1: Survey labor supply and demand.

Task 2 : Develop a Labor Market Information System.

Task 3: Make continued educational reform a key element of PIEFZA policy advocacy efforts.

Task 4: Develop a Entrepreneurship Support Program